

STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
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BOARD OF PENSION TRUSTEES
MEETING MINUTES OF SEPTEMBER 28, 2012

The meeting of the Board of Pension Trustees was called to order by S. Grant, at 9:05 a.m. in Delaware Conference Room in the Pension Office.

Trustees Present

Suzanne Grant
Ann Visalli
Nancy Shevock
Tom Shaw
Tom Cook

Trustees Absent

Arturo Agra
Helen Foster

Others Present

Kim Vincent, Pension Office
Cindy Collins, DAG
Terri Timmons, Pension Office
Wade Sallings, Pension Office
Kathy Kunkle, Pension Office
Rob Gooderham, Ashford Consulting Group
Joe Malloy, PAC
Jim Testerman, PAC
Charlotte Lister, PAC
Jan Hartford, CEM Benchmarking

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 July 27, 2012 meeting.

MOTION made by T. Shaw and seconded by T. Cook to approve the Public Minutes of the July 27, 2012 Board of Pension Trustees' meeting with noted changes.

MOTION ADOPTED UNANIMOUSLY

The Trustees reviewed the Executive Minutes of the July 27, 2012 meeting.

MOTION made by N. Shevock and seconded by T. Shaw to approve the Executive Minutes of the July 27, 2012 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

3. INVESTMENT COMMITTEE REPORT

Investment Committee Performance Report as of 7/31/12

<u>Fund</u>	<u>July-12</u>	<u>Fiscal Year To Date</u>	<u>12-Month</u>
Total Fund	1.1%	7.8%	2.9%
S & P 500 Index	1.4%	11.0%	9.1%
60/35/5*	1.4%	8.2%	8.9%
Delaware Benchmark**	1.3%	6.8%	3.6%

*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 July totaled \$7,572MM. The Fund's July return of 1.1% slightly lagged the Delaware Benchmark return. The calendar year-to-date return of 7.8% for the total Fund is 1.0 percentage points ahead of the Delaware Benchmark. For the one year period, the total Fund is up 2.9%, 0.7% behind of the Delaware Benchmark.

Equity markets were mixed in the month of July. The S&P was up 1.4%, while small cap stocks, as measured by the Russell 2000, lost 1.4%. International stocks also were positive with the MSCI EAFE international stock index up 1.1%. The broader MSCI All-Country World ex-U.S.

stock index (which includes emerging markets) gained 1.4% in July. Fixed income market returns were positive in July. The Barclays Universal Bond Index was up 1.5%, while the JP Morgan Global High Yield index and the Barclays TIPS index both gained 1.9% for the month.

The Investment Committee met once in August. At its meeting on August 21st, the Investment Committee reviewed second quarter reporting for the Fund, the private equity program, derivative positions and the Volunteer Firefighters' Fund.

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

- Termination of the Daruma small cap equity account with the liquidation to be conducted by Northern Trust's Transition Management service,
- \$30 million of the proceeds be contributed to the Rutabaga small cap equity account, and
- The balance of the proceeds to be added to the Mellon Capital Non-Securities Lending S&P 500 Index fund.

At its meeting on September 11th, the Investment Committee received a presentation from the Northern Trust Company, the Fund's custodian and cash manager.

Following an asset allocation discussion, the Investment Committee unanimously voted to recommend a poll vote of the Board to approve the withdrawal of \$100 million from the T. Rowe Price Natural Resources account and the addition of \$100 million to the Mellon Capital Non Lending S&P 500 index fund account.

At its meeting on September 25th, the Investment Committee received a presentation from existing equity manager Rutabaga Capital Management. In addition, the Investment Committee reviewed an analysis of soft dollar commissions for fiscal year 2012.

The Investment Committee unanimously voted to recommend the following action to the Board: if by midnight on September 27, 2012 a satisfactory investment management agreement with Brown Brothers Harriman has not been agreed to, the prior recommendation of a \$250 million allocation to the Brown Brothers Harriman Core Select strategy be rescinded and that the original sources of funds be deployed to DPERS' existing manager as follows: \$75 million to the Mellon Capital Non-Lending S&P index fund, \$125 million to the Wellington equity account, and \$50 million to the Focused equity account.

The next meeting of the Investment Committee will be on October 16, 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 N. Shevock and seconded by T. Shaw to ratify the poll vote to approve the termination of the Daruma small cap equity account with the liquidation to be conducted by Northern Trust's Transition Management service with \$30 million of the proceeds be contributed to DPERS' existing Rutabaga small cap equity account, and the balance of proceeds be added to DPERS' existing Mellon Capital Non-Securities Lending S&P 500 Index fund.

MOTION ADOPTED UNANIMOUSLY

MOTION made by T. Shaw and seconded by T. Cook to ratify the poll vote to approve the withdrawal of \$100 million from the T. Rowe Price Natural Resources account and \$100 million transferred to the Mellon Capital Non Lending S&P 500 index fund account.

MOTION ADOPTED UNANIMOUSLY

MOTION made by N. Shevock and seconded by T. Cook to approve rescinding the prior recommendation of a \$250 million allocation to Brown Brothers Harriman Core Select strategy, and that the original sources of funds be deployed to DEPRS' existing managers as follows: \$75 million to the Mellon Capital Non-Lending S&P index fund, \$135 million to the Wellington equity account, and \$50 million to the Focused equity account.

MOTION ADOPTED UNANIMOUSLY

4. **AUDIT COMMITTEE REPORT**

There was no report.

5. **PENSION ADVISORY COUNCIL REPORT**

Joe Malloy was pleased with the recent legislation that was passed including the retirees receiving a 1% increase. He thanked the Board Members for their support.

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

CEM Benchmarking Results for FY11

K. Vincent introduced Jan Hartford with CEM Benchmarking. J. Hartford described what the benefits are of benchmarking; which are 1) changes in performance and innovation, 2) Improvement in quality and productivity, and 3) improved performance measurement. Benchmarking also supports continuous improvement within the system. DPERS compared favorably with its peers. Several areas that were noted where improvements could be made included increasing online transaction capability, improving call outcomes and increased communications. It was noted that DPERS' costs for administrative and back office activities were among the lowest in its peer group.

Legislation

K. Vincent discussed a letter sent from Governor Markell to the Members of the House of Representatives on why he vetoed HB 387.

Resolution – Cranston Heights Fire Company

K. Vincent reported that the Pension Office had received a Resolution from the Cranston Heights Fire Company requesting that it wanted its Fire Company to join the State of Delaware County and Municipal Pension Plans, effective January 1, 2013.

A discussion of the merits was held.

MOTION made by N. Shevock and seconded by T. Shaw to allow the Cranston Heights Fire Company to join the State of Delaware County and Municipal Pension Plans with an effective date of January 1, 2013.

MOTION ADOPTED UNANIMOUSLY

October Board Meeting

K. Vincent stated that the October Board meeting will be lengthy due to Cheiron presenting the annual actuary information, and KPMG's report on the FY12 Comprehensive Annual Financial Report (CAFR).

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.

7. **DEPUTY ATTORNEY GENERAL REPORT**

There was no report.

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 October 26, 2012, at 9:00 a.m., in the Delaware Conference Room of the Office of Pensions.

At 11:45 a.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