

STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
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BOARD OF PENSION TRUSTEES
MEETING MINUTES OF JUNE 22, 2012

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

Trustees Present

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

Trustees Absent

Helen Foster

Others Present

Dave Craik, Pension Office
Cindy Collins, DAG
Terri Timmons, Pension Office
Jeff Hoover, Pension Office
Kathy Kunkle, Pension Office
Rob Gooderham, Ashford Consulting Group
Charlotte Lister, PAC
Jim Testerman, PAC

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 May 25, 2012 meeting.

MOTION made by N. Shevock and seconded by T. Shaw to approve the Public Minutes of the May 25, 2012 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

The Trustees reviewed the Executive Minutes of the May 25, 2012 meeting.

MOTION made by T. Shaw and seconded by A. Agra to approve the Executive Minutes of the May 25, 2012 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

3. INVESTMENT COMMITTEE REPORT

Investment Committee Performance Report as of 5/31/12

<u>Fund</u>	<u>May-12</u>	<u>Fiscal Year To Date</u>	<u>12-Month</u>
Total Fund	-3.0%	-0.6%	-1.5%
S & P 500 Index	-6.0%	1.3%	-0.4%
60/35/5*	-3.2%	4.2%	3.0%
Delaware	-4.3%	-0.9%	-2.0%
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 May totaled \$7,338MM. The Fund's May return of -3.0% outperformed the Delaware Benchmark return. For the fiscal year-to-date through May, the total Fund returns is -0.6%, 0.3 percentage points below the Delaware Benchmark.

Both domestic and international equity markets fell sharply in the month of May. The S&P 500 was down 6.0%, while small cap stocks, as measured by the Russell 2000, declined 6.6%. International stocks reflected continued concerns about Europe and slower growth in emerging markets as the MSCI EAFE international stock index was down 11.5%. The broader MSCI All-Country World ex-U.S. stock index (which includes emerging markets) declined 11.4% in May. Fixed income market returns were again mixed in May. The Barclays Universal Index was up 0.6%,

while the JP Morgan Global High Yield index declined 1.5% for the month. The Barclays TIPS index was up 1.7% in May.

The Investment Committee has met once since the last Board meeting in May.

At the Investment Committee meeting on June 12th, the Investment Committee reviewed an analysis of the Fund's equity and fixed income segments. The Investment Committee also reviewed first quarter reporting for the Fund's Non-Traditional assets.

The Investment Committee, pursuant to its authority to execute documents relating to manager schedules and contracts, approved an amendment to the Wellington Management contract.

The next meeting of the Investment Committee will be held on June 26, 2012.

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 A. Agra to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

4. **AUDIT COMMITTEE REPORT**

S. Grant reported, on H. Foster's behalf, that Ms. Foster had recently attended KPMG's Spring 2012 Audit Committee Roundtable Series, "Is Governance Keeping Pace?"

Following the upcoming July 17th Investment Committee Meeting, at Ashford Consulting Group, H. Foster will meet with Ashford Consulting Group and D. Craik for a briefing.

H. Foster will report on these matters during the July Board of Pension Trustees meeting.

5. **PENSION ADVISORY COUNCIL REPORT**

Jim Testerman stated that the Pension Advisory Council was appreciative that the retirees will receive a 1% increase.

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

D. Craik reported on the following 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.
- 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.
- 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.
- 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.
- SB 215 - Under this bill full-time county and municipal police officers and full-time uniformed firefighters in the City of Wilmington could elect to have their pension or disability pensions reduced by 3% and thereby increase the survivor's pension from 50% to 75%.

D. Craik reported that Executive Order Number Thirty-Six was signed by the Governor this week. This Order is for review and reform of State Agency Regulations.

D. Craik is also working on Return to Work language pertaining to casual seasonal employee's earnings limits.

Pew Center on the States

D. Craik reported that The Pew Center on the States has released its latest report on the long-term costs of employee's pension and retiree health care. This report was based on data as of 6/30/10. Delaware is one of 11 States that rank as "Solid Performer" at managing its long-term liabilities for pensions, but is listed as "Needs Improvement" for retiree health care. The strength of the pension program is that the State is funded at a rate higher than 80% (at 92%), paying at least 90% of the annual required contribution (at 97% as the Closed State Police plan is not funded on an actuarial basis), and having an unfunded liability (approximately \$630 million) less than the payroll for active members (approximately \$1.9 billion). The areas of improvement on the retiree health program are to have a funding level above 8% (currently at 2%) and to make an annual contribution of at least 90% of the annual required contribution (at 35%). It was noted of Delaware's legislative changes with HB81, but the impact of the changes on this study will not be until the FY12 data is analyzed.

7. DEPUTY ATTORNEY GENERAL REPORT

C. Collins reported that the Northern Trust Contract Agreement will most likely not be completed by June 30th.

C. Collins reminded the Board that there are two appeal hearings scheduled for July and one in September dealing with Return to Work. The Pension Office has received a FOIA Request for the records of the Appellants.

C. Collins advised the Board that DPERS has filed a lawsuit in the ShendgaTech matter. The lawsuit named as defendants KPMG, KPMG Hong Kong, KPMG International, Morgan Stanley and another regional auditing firm related to fraud in the issuance of convertible bonds purchased for the DPERS' account managed by Oaktree.

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 July 27 2012, at 9:00 a.m., in the Delaware Conference Room of the Office of Pensions.

At 10:00 a.m., there being no further business, MOTION was made by N. Shevock and seconded by A. Agra to adjourn the meeting.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

David C. Craik
Pension Administrator

Suzanne B. Grant
Chair for the Board of Pension Trustees