

STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
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BOARD OF PENSION TRUSTEES
MEETING MINUTES OF OCTOBER 25, 2013

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

Trustees Present

Suzanne Grant
Tom Shaw
Art Agra
Ann Visalli
Helen Foster

Trustees Absent

Nancy Shevock
Tom Cook

Others Present

Dave Craik, Pension Office
Terri Timmons, Pension Office
Kathy Kunkle, Pension Office
Wade Sallings, Pension Office
Rob Gooderham, Ashford Consulting Group
Ann Marie Johnson, DAG
Lisa Loikith, DAG's Office
Courtney Stewart, Controller Generals Office
Joe Malloy, PAC
Jim Testerman, PAC
Charlotte Lister, PAC

1. OPENING COMMENTS

S. Grant welcomed everyone and called the meeting to order. D. Craik updated the Board on the search for the Deputy Pension Administrator. Kathy Kunkle has accepted the position as Acting Deputy Pension Administrator in the interim until a permanent solution has been found.

2. APPROVAL OF THE MINUTES

The Trustees reviewed the Public Minutes of the September 27, 2013 meeting.

MOTION made by T. Shaw and seconded by A. Agra to approve the Public Minutes of the September 27, 2013 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

The Trustees reviewed the Executive Minutes of the September 27, 2013 meeting.

MOTION made by A. Agra and seconded by T. Shaw to approve the Executive Minutes of the September 27, 2013 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

3. INVESTMENT COMMITTEE REPORT

Investment Committee Performance Report as of 9/30/13

<u>Fund</u>	<u>Sep-13</u>	<u>Fiscal Year To Date</u>	<u>12-Month</u>
Total Fund	2.6%	4.4%	12.3%
S & P 500 Index	3.1%	5.2%	19.3%
60/35/5*	2.1 %	3.3%	10.6%
Delaware	3.2%	4.7%	10.7%
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 September totaled \$8,360 million. The Fund's September return of 2.6% underperformed the Delaware Benchmark return. For the fiscal year (3 month period), the total Fund is up 4.4%, 0.3 percentage points behind the Delaware Benchmark.

Global equity markets were strong in September, despite U.S. political issues and prospects of a potential government default. For September, the broad Russell 3000 gained 3.7%, while the MSCI EAFE international stock index was up 7.4%. The broader MSCI All-Country World ex-U.S. stock index (which includes emerging markets) gained 6.9%. Given U.S. uncertainty, the fixed income returns were modestly positive. Both the Barclays Universal bond index and the JP Morgan Global High Yield index gained 1.0% for the month. The Barclays TIPS index was up 1.4% in September.

The Investment Committee has met once since the Board's last meeting.

At the Investment Committee meeting on October 15th, the Committee received a presentation from existing manager T. Rowe Price reviewing the Fund's global equity account. The Investment Committee also received a presentation from equity manager Kiltearn Partners and reviewed the firm's global equity strategy.

The Investment Committee, under its authority to execute documents relating to partnerships over which it exercises authority, unanimously approved an amendment to Trident Partners VII, LP.

The Investment Committee voted to recommend the Board, by poll vote, to approve the following moves subject to approval of documents by counsel and with implementation coordinated by Ashford Consulting Group and the Pension Office:

- Allocate \$200 million to an international equity account with new manager Kiltearn Partners LLP.
- Withdraw \$100 million from the Mellon Capital non-securities lending (NSL) S&P 500 stock index fund.
- Withdraw \$50 million from the Mellon Capital large Cap Value index fund.
- Withdraw \$50 million from the Oaktree Capital Convertibles account.

The next meeting of the Investment Committee will be on October 29th.

MOTION made by T. Shaw and seconded by A. Agra 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 H. Foster to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

MOTION made by A. Agra and seconded by T. Shaw to ratify the poll vote to allocate \$200 million to an international equity account with new manager Kiltearn partners LLP; withdraw \$100 million from the Melon Capital non-securities lending (NSL) S&P 500 stock index fund; Withdraw \$50 million from the Mellon Capital Large Cap Value index fund; and withdraw \$50 million from the Oaktree Capital Convertibles account.

MOTION ADOPTED UNANIMOUSLY

4. AUDIT COMMITTEE REPORT

H. Foster stated that the Audit Committee met on October 18th and had very good conversation with auditors. We are expecting to hear from the auditors at the November 22, 2013 meeting.

5. PENSION ADVISORY COUNCIL REPORT

J. Malloy stated there was nothing to report at this time

6. PENSION ADMINISTRATOR REPORT

Pension Office Activities

D. Craik reported on the quarterly Pension Office statistics. New pension applications were down compared to last year. Burial Benefits were higher than previous year and healthcare changes were down. Phone calls per quarter have also decreased from last year.

The Disability report shows that we are averaging about 2 new cases per month. We had 153 continuance cases for the year.

There are currently 2,400 people in the old disability plan and the number is declining. As the numbers of disability applications are declining the role of the Medical Committee will diminish over time. It has become more difficult to replace the members of the Medical Committee. The Pension Office is evaluating the possibility of outsourcing this function to a disability management company to oversee new disability cases, which would also include a vocational rehabilitation component. There will be further review and a discussion with the Medical Committee on this topic.

7. DEPUTY ATTORNEY GENERAL REPORT

A.M. Johnson provided Board members with a memo which reflected the extensive minutes on the Best Practices Review, which was conducted by the Board in 2005-2007. At that time, the Board adopted many of the Board governance policies currently in place. A.M. Johnson, in conjunction with D. Craik will be reviewing and updating policies to be discussed with the Board in

the upcoming months, so that each policy can be amended as needed, and reaffirmed. She proposes that a review and approval of all Board Policies be conducted on an annual basis. She stated that most of the policies are current, but does expect to make some minor adjustments to them in order to conform to current Board practices.

8. ACTUARIAL REPORT

Fiona Liston and Margaret Tempkin, consultants with Cheiron, Inc., presented the Trustees DPERS' Fiscal 2013 Actuarial Valuation for the State Employees' Pension Plan. The following topics were discussed:

- Historical Review
 - Growth in Participation
 - Growth in Assets
 - Assets & Liabilities; and
 - Contributions

- Principal 6/30/13 Valuation Results
 - Key Statistics for the State Employees' Pension Plan
 - Number of active employees increased by 0.4%
 - Average salary decreased by 0.2%
 - Number of retirees decreased by 0.6%
 - Average benefit increased by 2.4%
 - Principal 6/30/13 Valuation Results
 - Actuarial Accrued Liability is \$8,257 million
 - Actuarial Value of assets is \$7,520 million
 - Unfunded Actuarial Liability is \$737 million
 - Funded ratio of 91%

The following employer contribution rates for FY15 were presented to the Board by Cheiron:

State Employees'	9.56%
State Judicial	26.44%
State Police	18.51%
County/Municipal General	6.48%
County/Municipal P & F	14.18%
Diamond Port	9.01%
Volunteer Fire	\$412.27 per member

S. Grant asked if the Trustees' or the public had any questions about the 2013 Actuarial Valuation. A discussion of the merits was held concerning future benefit costs.

MOTION made by H. Foster and seconded by A. Visalli to adopt the FY15 employer contribution rates presented to the Board by Cheiron.

MOTION ADOPTED UNANIMOUSLY

MOTION made by A. Agra and seconded by H. Foster 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 H. Foster to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

9. **PENDING ITEMS**

There were no pending items.

10. **NEW BUSINESS**

There was no new business.

11. **ADJOURNMENT**

The next Pension Board meeting is scheduled to be held on November 22, 2013, at 9:00 a.m., at the Greenville Country Club.

At 11:35 a.m., there being no further business, MOTION was made by A. Agra and seconded by H. Foster to adjourn the meeting.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

David C. Craik
Pension Administrator

Suzanne B. Grant
Chair for the Board of Pension Trustees