

STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
MCARDLE BUILDING
860 SILVER LAKE BLVD., SUITE 1
DOVER, DE 19904-2402

When Calling Long Distance
Toll Free Number 1-800-722-7300
E-mail: pensionoffice@state.de.us

Telephone (302) 739-4208
FAX # (302) 739-6129
www.delawarepensions.com

BOARD OF PENSION TRUSTEES
MEETING MINUTES OF APRIL 26, 2013

The meeting of the Board of Pension Trustees was called to order by S. Grant, at 8:59 a.m. in Delaware Conference Room in the Pension Office.

Trustees Present

Suzanne Grant
Helen Foster
Tom Shaw
Tom Cook
Nancy Shevock
Art Agra

Trustees Absent

Ann Visalli

Others Present

Dave Craik, Pension Office
Kim Vincent, Pension Office
Terri Timmons, Pension Office
Wade Sallings, Pension Office
Kathy Kunkle, Pension Office
Rob Gooderham, Ashford Consulting Group
Fiona Liston, Cheiron
George Saxon, Chair, Investment Committee
Joe Malloy, PAC
Jim Testerman, PAC
Charlotte Lister, PAC
Courtney Stewart, Controller General's Office
Ann Marie Johnson, DAG
Jackie Coverdale, Pension Office
Kristin Caiola, Pension Office
Debbie Hammond, Pension Office

1. OPENING COMMENTS

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

Debbie Hammond is a Sr. Human Resource Technician and has been with the Pension Office for five years. She began her career with the office as an Administrative Specialist I at the front desk. She was then promoted to her present position and works within the Payroll Section.

Kristin Caiola is an Administrative Specialist I and has been with the Pension Office for a year and currently works at the Front Desk within the Support Services Section.

Jacqueline Coverdale is an Administrative Specialist II and recently began her career with the Pension Office.

S. Grant reported that she recently attended a conference for the Council of Institutional Investors (CII) and found the conference very educational. The CII is a nonprofit association of pension funds, other employee benefit funds, endowments and foundations with combined asset that exceed \$3 trillion. CII educates its members, policymakers and the public about the importance of corporate governance, shareowner rights and related investment issues, and advocates on their members' behalf.

2. APPROVAL OF THE MINUTES

The Trustees reviewed the Public Minutes of the March 22, 2013 meeting.

MOTION made by T. Shaw and seconded by T. Cook to approve the Public Minutes of the March 22, 2013 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

The Trustees reviewed the Executive Minutes of the March 22, 2013 meeting.

MOTION made by T. Shaw and seconded by A. Agra to approve the Executive Minutes of the March 22, 2013 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

3. INVESTMENT COMMITTEE REPORT

Investment Committee Performance Report as of 3/31/13

<u>Fund</u>	<u>Mar-13</u>	<u>Fiscal Year To Date</u>	<u>12-Month</u>
Total Fund	1.8%	10.1%	9.7%
S & P 500 Index	3.8%	17.2%	14.0%
60/35/5*	2.3%	10.8%	10.0%
Delaware Benchmark**	1.6%	11.3%	9.3%

*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 March totaled \$8,063million. The Fund's March return of 1.8% outperformed the Delaware Benchmark return. For the fiscal year-to-date, the total Fund is up 10.1%, 1.2 percentage points below the Delaware Benchmark.

Domestic equity markets delivered positive returns in March, elevated by better than expected data on retail sales and employment, while European stocks were impacted by a banking crisis in Cyprus. For March, the broad Russell 3000 rose 3.9%, while the MSCI EAFE international stock index rose 0.8%. The broader MSCI All-Country World ex-U.S. stock index (which includes emerging markets) increased 1.8%. Fixed income market returns were mixed in March. The Barclays Universal bond index increased by 0.1%, while the JP Morgan Global High Yield index gained 0.9%. The Barclays TIPS index was up 0.3% in March.

The Investment Committee has met twice since the Boards March meeting.

At its meeting on April 9, 2013, the Investment Committee received a presentation from existing manager Wellington Management and reviewed the Fund's domestic equity account.

At the April 23, 201 meeting, the Investment Committee received a presentation from existing manager Viking Global. The Investment Committee voted to recommend to the Board the following actions:

1. Commitment of up to \$30 million to Media Technology VI subject to counsel's review of documents
2. Commitment of up to \$10 million to a secondary purchase in Media Technology V subject to counsel's review of documents
3. Liquidation of assets in the Mellon Capital Enhanced Tactical Asset Allocation account and transfer of the proceeds to the Mellon Non-Securities Lending Stock Index Fund
4. Approval of the Derivative Policy and Procedure Addendum

The next meeting of the Investment Committee will be held on May 14th.

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

MOTION ADOPTED UNANIMOUSLY

MOTION made by N. Shevock and seconded by T. Shaw to commit up to \$30 million to Media Technology VI subject to counsel's review of the documents.

MOTION ADOPTED UNANIMOUSLY

MOTION made by N. Shevock and seconded by T. Shaw to commit up to \$10 million to a secondary purchase in Media Technology V subject to counsel's review of documents.

MOTION ADOPTED UNANIMOUSLY

MOTION made by H. Foster and seconded by A. Agra on the liquidation of assets in the Mellon Capital Enhanced Tactical Asset Allocation account and transfer of the proceeds to the Mellon Non-Securities Lending Stock Index Fund.

MOTION ADOPTED UNANIMOUSLY

Fiona Liston, of Cheiron, presented and led the Board with a discussion on Key Economic Assumptions.

- Discount Rate
 - Was 8.5% thru 2003
 - Dropped to 8% for 2004 valuation
 - Dropped again to 7.5% for 2011 valuation
- Inflation Rate
 - Was 5% thru 2003
 - Dropped to 3.75% for 2004 valuation
 - Dropped again to 3.25% for 2011 valuation
- Reducing inflation rate is a partial offset to the increase that would arise from lowering discount rate alone.

Impetus for Change

- Low return assumption for Delaware benchmark
 - 5.8% per Ashford
 - Anticipated Fund return is 8.1%
- Moody's Initiative
 - They are going to approximate PERS liability using a 5.5% discount rate
- GASB 67/68
 - Do not require a lower discount rate unless contributions are projected to be insufficient to cover payouts for current population
 - Could be an issue for Closed State Police and Volunteer Fire plans only

4. **AUDIT COMMITTEE REPORT**

H. Foster stated the Audit Committee will be meeting on April 30, 2013. KPMG will provide their audit entrance presentation.

5. **PENSION ADVISORY COUNCIL REPORT**

J. Malloy reported that he is still speaking with Legislators in reference to a Post Retirement Increase (PRI). He also stated that the attendance to the pre-retirement workshops has not been as full as the previous year.

6. **PENSION ADMINISTRATOR REPORT**

Legislative Update

D. Craik gave an update on the following legislation:

- HB25 – eliminates the Wilmington Federal Credit Union from the definition of an employee, has now been released from Committee.

- HB164 – this Bill, passed last year, allowed correctional officers to retire early without a penalty. The Bill would not become effective until the State receive a favorable ruling from the IRS on a Private Letter Ruling. A response was received and the IRS has declined to rule. Per D. Craik the Correctional Officers are back to ground zero and will have to start over. There are five options to change and/or update the Bill and Fiona Liston is working with D. Craik on these options.
- Draft Bill - County/Muni bill to include health insurance.
- Draft Bill - Line of duty death and health insurance which would be paid to surviving child
- Private Letter Ruling– HB218 – asked IRS to look into this for a determination ruling and the IRS declined to rule. ICE Miller is looking into this.

Actuarial Services RFP

The RFP proposals are due today by noon. N. Shevock and D. Craik will come to the May Board meeting with a recommendation.

Rules and Regulations Public Hearing

Public Hearing will be held immediately after the May Board meeting in reference to the recently updated Rules and Regulations.

Commentary

D. Craik stated that in the Board packets there is a copy of a commentary written by Keith Brainard, titled “Books, Budgets, and Bonds, What Do All Those Pension Numbers Mean?” This article leads a good discussion on the GASB changes.

Letter to the Editor

Per D. Craik, on April 16, 2013 in the Delaware State News, there was a Letter to the Editor titled, “Delaware is playing games with employee retirement benefits”, written by Dr. John E. Stapleford, Director for the Center for Economic Policy and Analysis, Caesar Rodney Institute. The letter states that the State of Delaware is seriously under-funded concerning pension plans and the analysis has been mostly ignored until now.

Quarterly Statistics

The FY13 Pension Office Quarterly Statistics show that the 3rd quarter figures for healthcare additions and changes is up due to the new prescription plan as of January 1st.

Estimates figures are also up due to recent DSEA workshops which were included in this report.

The Disability report shows 10 new cases for the quarter with nothing else unusual to report.

7. **DEPUTY ATTORNEY GENERAL REPORT**

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 N. Shevock and seconded by H. Foster to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

The Board reviewed and discussed the Derivative Policy and Procedure Addendum for DPERS' Investment Policy. The Dodd Frank Act (fully known as the Dodd-Frank Wall Street Reform and Consumer Protection Act) is a United State federal law that places regulation of the financial industry in the hands of the government. The legislation, enacted in July 2010, aims to prevent another significant financial crisis by creating new financial regulatory processes that enforce transparency and accountability while implementing rules for consumer protection.

MOTION made by N. Shevock and seconded by A. Agra to approve the Derivative Policy and Procedure Addendum for DPERS' Investment Policy.

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 May 31, 2013, at 9:00 a.m., in the Delaware Conference Room of the Office of Pensions.

At a.m., there being no further business,
MOTION was made by H. Foster 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