

STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
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BOARD OF PENSION TRUSTEES
MEETING MINUTES OF MAY 31, 2013

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

Trustees Present

Suzanne Grant
Helen Foster
Tom Shaw
Tom Cook
Ann Visalli
Art Agra

Trustees Absent

Nancy Shevock

Others Present

Dave Craik, Pension Office
Kim Vincent, Pension Office
Terri Timmons, Pension Office
Wade Sallings, Pension Office
Jeff Hoover, Pension Office
Rob Gooderham, Ashford Consulting Group
Charlotte Lister, PAC
Ann Marie Johnson, DAG

1. **OPENING COMMENTS**

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

2. APPROVAL OF THE MINUTES

The Trustees reviewed the Public Minutes of the April 26, 2013 meeting.

MOTION made by T. Shaw and seconded by A. Agra to approve the Public Minutes of the April 26, 2013 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

The Trustees reviewed the Executive Minutes of the April 26, 2013 meeting.

MOTION made by A. Visalli and seconded by T. Shaw to approve the Executive Minutes of the April 26, 2013 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

3. INVESTMENT COMMITTEE REPORT

Investment Committee Performance Report as of 4/30/13

<u>Fund</u>	<u>April-13</u>	<u>Fiscal Year To Date</u>	<u>12-Month</u>
Total Fund	1.4%	11.6%	11.2%
S & P 500 Index	1.9%	19.4%	16.9%
60/35/5*	1.6%	12.5%	11.7 %
Delaware	1.8%	13.7%	11.8%
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 April totaled \$8,149 million. The Fund's April return of 1.4% underperformed the Delaware Benchmark return. For the fiscal year-to-date, the total Fund is up 11.6%, 2.1 percentage points below the Delaware Benchmark.

Domestic equity markets delivered positive returns in April, elevated by strong earnings reports. For April, the broad Russell 3000 rose 1.6%, while the MSCI EAFE international stock index rose 5.2%. The broader MSCI All-Country World ex-U.S. stock index (which includes emerging markets) increased 3.7%. Fixed income market returns were positive in April. The Barclays Universal bond index increased by 1.1%, while the JP Morgan Global High Yield index gained 1.6%. The Barclays TIPS index was up 0.8% in April.

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

At the May 14th Investment Committee meeting the Investment Committee received a presentation from existing manager Flagship Ventures and reviewed the firm's strategy.

The Investment Committee voted to recommend to the Board by poll vote to approve the following allocation moves subject to resolution of a compliance reporting issue:

1. Withdraw \$60 million from the T. Rowe Price Natural Resources equity account
2. Withdraw \$20 million from the Northern Trust cash account
3. Modify the 2/12/13 poll vote which approved allocation of approximately \$140 million to the Oaktree International Convertible account to reduce the amount to \$120 million
4. Allocate \$80 million to the Baillie Gifford global equity account

The Investment Committee, under its authority to execute documents relating to manager schedules and contracts over which it exercises authority, unanimously approved Schedule A changes to the contracts of Axiom International, Baillie Gifford, Oaktree Capital Management, Loomis Sayles, and T. Rowe Price.

The next meeting of the Investment Committee will be held on June 11, 2013.

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, confidential medical records, sensitive commercial information, proprietary business information, trade secrets and confidential financial information pursuant to 29 Del. C. §.

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

MOTION ADOPTED UNANIMOUSLY

MOTION made by A. Visalli and seconded by A. Agra to ratify the poll vote for the following allocation moves subject to resolution of a compliance reporting issue: 1) Withdrawal \$60 million from the T. Rowe Natural Resources equity account; 2) Withdrawal \$20 million from the Northern Trust cash account; 3) Modify the 2/12/13 poll vote which approved allocation of approximately \$140 million to the Oaktree International Convertible account to reduce that amount to \$120 million; 4) Allocate \$80 million to the Baillie Gifford global equity account.

MOTION ADOPTED UNANIMOUSLY

4. **AUDIT COMMITTEE REPORT**

H. Foster stated that the Audit Committee met on April 29th with KPMG where they rolled out their plan for the upcoming audit. Discussion was held concerning journal entries and communications, and they touched briefly on the position that is being discussed. A tentative calendar has been completed and it was stated that KPMG would like to meet with Investment Committee members.

5. **PENSION ADVISORY COUNCIL REPORT**

C. Lister commented that J. Malloy, Chair of PAC, has spent a lot of time communicating with legislators in reference to a PRI. The next Pension Advisory meeting will be held in June.

6. **PENSION ADMINISTRATOR REPORT**

Health care re-opening – will now have 2 re-openings, spring and fall. There were 6,200 phone calls during the re-opening period and for the month of May over 10,000. Fall reopening period will be for the Medicare related retirees. Only option is to opt in/out of prescription coverage.

The Deputy Pension Administrator position has been posted in the News Journal and several national organizations.

LEGISLATIVE ITEMS

SB 28 – This Bill allows a per diem employee of the legislature who receives a service pension to be exempt from the earnings limit while working for the legislature. Senator Peterson introduced this Bill and it has now passed the Senate and is now before the House. During the Joint Finance Committee hearings there was language adopted by the Committee that raises the pension offset limit from \$19,240 to \$30,000. The Board discussed the potential impact of the change in offset limit.

HB 75 – The Bill repeals the prohibition on same-gender marriage that was enacted in 1996 and was passed in the Senate and House. The Pension Office will need to update its documents, forms, and letters to reflect this legislative change.

HB 137 – This Bill expands the Joint/Survivor options for future retired participants in the State Pension programs.

D. Craik recently met with Mike Barlow and the State Corrections Officers. Five options have been proposed.

D. Craik also met with Senator Bushweller and the Police Chiefs Council on June 23rd concerning providing health insurance coverage to the County/Municipal Police/Firefighter plan.

The FY14 Budget has been completed and there is no Post Retirement Increase for retirees.

CEM Benchmarking Report

K. Vincent reported that the Pension Office has been participating in the CEM Benchmarking since 2005. Out of the 61 pension systems, DPERS is compared to 11 systems in our peer group.

The Pension Administration cost of \$78 per member represented a decrease from the previous years per member cost of \$80, and reflecting an improvement for DPERS. The terminology is different within the 61 pension systems so sometimes it is difficult to answer some of the questions.

The reason why DPERS cost is 43% below peer average is related to DPRS relative smaller size, and the resulting economies of scale disadvantage: lower transactions per member; higher transactions per FTE; lower costs per FTE for salaries, and benefits, building and utilities, HR and IT desktop; higher third-party and other costs in front-office activities; and paying more/-less [more for less?] for back-office activities.

The total score for service was 72 out of 100, and below the peer median of 80. Service is measured from the member's perspective. A higher service score reflects faster turnaround, greater availability of staff, more choice and higher quality.

Strategies for improving the service score would include an increase in on-line services. Discussion was held on the various sections of the report.

Actuarial RFP

D. Craik reported that the panel interviewed three firms, Cheiron, Cavanaugh MacDonald Consulting, LLC, and Gabriel, Roeder, Smith & Company. After much discussion the panel has selected Cheiron. The Panel is recommending a three year contract with two one year extensions.

MOTION made by A. Agra and seconded by T. Cook to approve the selection of Cheiron for DPER's Actuarial Services for a three year period with two one year extensions.

MOTION ADOPTED UNANIMOUSLY

7. **DEPUTY ATTORNEY GENERAL REPORT**

A.M. Johnson stated that the Custodial bank issue has been resolved. Many thanks went to Garry Musto, Ashford Consulting Group, for his help with this issue.

MOTION made by T. Shaw and seconded by A. Agra to approve the contract with Northern Trust.

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 June 21, 2013, at 9:00 a.m., in the Delaware Conference Room of the Office of Pensions.

At 10:45 a.m., there being no further business, MOTION was made by T. Shaw 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