

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 OCTOBER 31, 2014

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
Nancy Shevock
Tom Cook

Trustees Absent

Others Present

Dave Craik, Pension Office
Kathy Kunkle, Pension Office
Amy Jozwiak, Pension Office
Wade Sallings, Pension Office
Lincoln Nathan, Pension Office
Jennifer Dilworth, Pension Office
Paul Roth, TBV Advisors
Rob Gooderham, Ashford Consulting Group
Ann Marie Johnson, Deputy Attorney General, Delaware Department of Justice
Sharyn Hallman, Pension Paralegal, Delaware Department of Justice
Courtney Stewart, Controller Generals Office
Andrea Godfrey, OMB
Joe Malloy, PAC
Fiona Liston, Cheiron
Margaret Tempkin, Cheiron
Elizabeth Wiley, Cheiron

1. **OPENING COMMENTS**

S. Grant welcomed everyone and called the meeting to order.

2. **APPROVAL OF THE MINUTES**

The Trustees reviewed the Public Minutes of the September 22, 2014 meeting.

MOTION made by N. Shevock and seconded by T. Shaw to approve the Public Minutes of the September 22, 2014 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

The Trustees reviewed the Executive Minutes of the September 22, 2014 meeting.

MOTION made by N. Shevock and seconded by T. Shaw to approve the Executive Minutes of the September 22, 2014 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

3. **INVESTMENT COMMITTEE REPORT**

Investment Committee Performance Report as of 9/30/14

Assets in the fund at the end of **September** totaled \$9,093 million. The Fund's September return of -1.6% was ahead of the Delaware Benchmark return. For the calendar year, the Total Fund is up 6.7%, 2.3 percentage points above the Delaware Benchmark.

	<u>Sep-14</u>	<u>Fiscal YTD 9/30/14</u>	<u>Calendar YTD 9/30/14</u>	<u>12 Months Ended 9/30/2014</u>
Total Fund	-1.6%	-0.4%	6.7%	12.1%
S&P 500 Index	-1.4%	2.5%	8.3%	19.7%
Delaware Benchmark*	-2.1%	-1.1%	4.4%	9.4%

* 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

In September, markets retreated from August's strong returns, reacting to signs of weakness in Europe and China, in addition to weakness in the energy sector as oil prices fell. Equity markets posted declines, as the broad Russell 3000 index fell 2.1%, and the MSCI EAFE international stock index dropped by 3.8%. The broader MSCI All-Country World ex-U.S. stock index (which includes emerging markets) lost 4.8%. Fixed income markets also experienced negative returns, though to a lesser degree. The Barclays Universal bond index lost 0.7%, while the JP Morgan Global High Yield index was down 2.0% for the month. The Barclays TIPS index declined 2.5% in September as inflation expectations were in retreat.

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

At its meeting on September 30th, the Committee received a presentation from existing global equity manager Kiltearn Partners and reviewed that manager's account.

At its meeting on October 14th, the Committee received a presentation from existing manager Riverstone Holdings and reviewed the Fund's investments in Riverstone energy partnerships.

At its meeting on October 28th, the Committee received a presentation from potential manager Harvest Fund Advisors covering that firm's active approach to managing MLPs. The Committee also discussed and approved recommended edits to the Board's Placement Agent policy.

At the October 28th meeting, the Committee voted to recommend the following actions to the Board, the latter action to be recommended by poll vote:

- Liquidation of the Mellon S&P MLP Index Strategy fund and allocating 100% of the proceeds to a separate account to fund the Harvest MLP Alpha Strategy, subject to counsel's review and approval of documents.
- Transfer \$100 million from the Mellon Capital EB Daily Valued Non-SL S&P 500 stock index fund account to the Mellon Capital EB Daily Valued Treasury Inflation Protection Securities (TIPS) index fund account.

The next meeting of the Investment Committee will be November 18th.

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 S. Grant and seconded by A. Agra to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

MOTION made by A. Agra and seconded by H. Foster to ratify the poll vote to withdraw \$100 million from the Mellon Capital EB Daily Valued Non-SL S&P 500 stock index fund account and allocate the proceeds to the Mellon Capital EB Daily Valued Treasury Inflation Protection Securities (TIPS) index fund account.

MOTION ADOPTED UNANIMOUSLY

MOTION made by H. Foster and seconded by A. Agra to Terminate the Mellon S&P MLP Index Strategy currently estimated at \$470 million and transfer the assets through an in-kind distribution to new manager Harvest Fund Advisors LLC

MOTION ADOPTED UNANIMOUSLY

4. AUDIT COMMITTEE REPORT

H. Foster stated that the Audit Committee next meeting will be held on November 14, 2012.

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 increased from last year.

The PeopleSoft upgrade is on schedule to go live on March 1, 2015.

The consolidation of IT employees with DTI has not resolved the staffing issues that the Pension Office had in filling PeopleSoft programmer positions. Two of the three employees have

resigned this past month leaving the Pension Office in the same situation as in prior to the consolidation.

The Medical Committee is to be disbanded and current and future disability cases are to be handled by The Hartford, who will provide medical review services. DAG Johnson is currently working on the contract and a formal proposal will be presented at the next meeting.

D. Craik presented a proposal to add the Bethany Beach Fire Co. paid employees and The Town of Smyrna general employees hired after January 1, 2012 to the County/Municipal General Employees' Pension Plan. There are continued discussions to add the Town of Smyrna Police at some time in the future.

MOTION made by T. Cook and seconded by H. Foster to allow the Bethany Beach Fire Co. and Town of Smyrna to join the County/Municipal General Employees' Pension Plan.

MOTION ADOPTED UNANIMOUSLY

7. **DEPUTY ATTORNEY GENERAL REPORT**

DAG Johnson presented the updated Placement Agent Policy, which had been thoroughly reviewed by the Investment Committee and the Board approved it. She also recommended the approval of the TBV Advisor's Contract, which was also approved by the Board.

MOTION made by T. Shaw and seconded by T. Cook to approve the Placement Agents policy.

MOTION ADOPTED UNANIMOUSLY

MOTION made by H. Foster and seconded by A. Agra to approve TBV Advisor's contract effective October 10, 2014

MOTION ADOPTED UNANIMOUSLY

The Board Approved the Report and Recommendation of the Appeal of Judith K. Perkins.

8. **ACTUARIAL REPORT**

Fiona Liston and Margaret Tempkin, consultants with Cheiron, Inc., presented the Trustees DPERS' Fiscal 2014 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 6/30/14 Valuation Results
 - Key Statistics for the State Employees' Pension Plan
 - Number of active employees increased by 0.7%
 - Average salary increased by 0.6%
 - Number of retirees increased by 3.2%
 - Average benefit increased by 1.7%
 - Principal 6/30/14 Valuation Results
 - Actuarial Accrued Liability is \$8,257 million
 - Actuarial Value of assets is \$8,067 million
 - Unfunded Actuarial Liability is \$673 million
 - Funded ratio of 92%

The following employer contribution rates for FY16 were presented to the Board by Cheiron:

State Employees"	9.58%
State Judicial	21.51%
State Police	18.60%
County/Municipal General	6.21%
County/Municipal P & F	13.85%
Diamond Port	9.70%
Volunteer Fire	\$429.69 per member

S. Grant asked if the Trustees' or the public had any questions about the 2014 Actuarial Valuation. A discussion of the merits concerning future benefit costs was conducted.

MOTION made by T. Shaw and seconded by N. Shevock to adopt the FY16 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 21, 2014, at 9:00 a.m., at the Delaware Conference room of the Office of Pensions.

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