

STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
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BOARD OF PENSION TRUSTEES
MEETING MINUTES OF JANUARY 30, 2015

The meeting of the Board of Pension Trustees was called to order by Suzanne Grant, at 9:03 a.m. in Delaware Conference Room in the Pension Office.

Trustees Present

Nancy Shevock
Suzanne Grant
Ann Visalli
Art Agra
Helen Foster

Trustees Absent

T. Shaw
T. Cook

Others Present

Dave Craik, Pension Office
Terri Timmons, Pension Office
Kathy Kunkle, Pension Office
Jennifer Dilworth, Pension Office
Lincoln Nathan, Pension Office
Paul Roth, TBV Advisors LLC
Rob Gooderham, Ashford Consulting Group
Ann Marie Johnson, Deputy Attorney General, Delaware Department of Justice
Denise Herron, Pension Paralegal, Delaware Department of Justice
Joe Malloy, PAC
Jim Testerman, PAC

1. **OPENING COMMENTS**

S. Grant read a thank you note received from Dr. Shellenberger, former Medical Committee Chair, thanking S. Grant and the Board for all of their support.

Ann Marie Johnson introduced Denise Herron to the Board. Ms. Herron is the new paralegal for the Pension Office.

2. **APPROVAL OF THE MINUTES**

The Trustees reviewed the Public Minutes of the December 19, 2014 meeting.

MOTION made by N. Shevock and seconded by A. Agra to approve the Public Minutes of the December 19, 2014 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

The Trustees reviewed the Executive Minutes of the December 19, 2014 meeting.

MOTION made by N. Shevock and seconded by A. Agra to approve the Executive Minutes of the December 19, 2014 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

3. **PENSION AUDIT REPORT**

D. Craik reported that the CAFR was received yesterday and that there are limited copies. He stated that DPERS is still working with KPMG on certain issues. The final draft was sent to Auditor's Office and to the printers at the same time. The printer recommended some non-substantive corrections which were accepted. The Auditor's Office had already posted the version without the non-substantive corrections. The corrected and final version of the CAFR is on the DPERS website.

The Board discussed and stated that in the future it would be best to wait before sending the CAFR to Auditor's Office until the printer has reviewed it.

D. Craik reported that the First State Independence Fund has not been completed as of this date.

4. **PENSION ADVISORY COUNCIL**

J. Malloy reported that the PAC Officers will remain the same for CY 2015. For this legislative session PAC will be requesting a PRI and funding of OPEB.

5. **PENSION ADMINISTRATOR REPORT**

FY16 Governor's Recommended Budget

- All funding for the Closed State Police health and pension, CPI of 1.5% for 7/1/15
- CRIS upgrade allocation of \$800k, not needed in FY16
- For the State Employees' Pension Plan a total rate of 21.16% made up of the following components – Pension 9.58%, DIP 1.14%, pay as you go health 7.47% OPEB 0.9%, PRI 2.07%
- Annual Required Contribution was funded for all plans
- No salary increase for active employees

Activities

- CRIS upgrade is on track with a go live scheduled for March 2nd

Pending Legislation

- Senator Lopez is working on a bill for individuals who are convicted of certain crimes whereby they would forfeit their right to collect a State pension. A similar bill was introduced last year. The Trustees discussed aspects of the proposed bill.

Quarterly Activities

D. Craik reported that the Healthcare statistics for the second quarter dropped due to Open Enrollment effective date of July 1st. Counseling and Estimates were suspended due to a heavy August payroll but have increased for the second quarter.

The Medical Committee Report shows 7 new cases, for a total of 21 for the year. Continuance cases were pared down to about 30 and have been given to The Hartford.

Risk Management – Paul Roth

P. Roth reported he is working with D. Craik on management issues and is looking for any potential risks within the office. One issue he has found is there is no written disaster recovery plan in place for the pension office in case something happens to the building. He would like to see a written plan implemented and fully tested.

He has also been speaking to Northern Trust to review both the products DPERS has access to and any other products they offer that could be of interest to DPERS.

P. Roth has been meeting with the management staff and is gathering information on the investment portfolio so that DPERS has all information in-house.

6. DEPUTY ATTORNEY GENERAL REPORT

Deputy Attorney General Ann Marie Johnson has been updating the Security Litigation Policy. This policy establishes procedures and guidelines for monitoring DPERS' portfolio for potentially actionable losses, so as to protect DPERS' interest and maximize any recoveries available from such actionable losses. The policy establishes a loss threshold for opting out or seeking lead plaintiff status in domestic securities claims, and a protocol for foreign securities claims.

DPERS may retain one or more private law firms or monitoring firms with demonstrated expertise and experience in prosecuting securities actions to advise and/or represent the Fund in securities actions in which the system wishes to opt out of class action, or cases involving foreign securities. Ms. Johnson asked the Board to approve the updated policy. The Board discussed and came to the conclusion to approve the updated Securities Litigation with the understanding that there may be future recommendations relating to engaging private law firms or monitoring agencies to identify and pursue foreign claims meeting the policy criteria. Ms. Johnson was asked to return to the Board with any recommendations. They also asked that she report the status of securities claims actions in domestic and foreign litigation on an annual basis to the Board and Investment Committee unless there was action that needed to be discussed or addressed.

MOTION made by N. Shevock and seconded by A. Agra to approve the updated Securities Litigation Policy with the understanding that there may be modifications and/or changes to the policy and to return to the Board with any recommendations or changes.

MOTION ADOPTED UNANIMOUSLY

7. INVESTMENT COMMITTEE REPORT

| <u>Fund</u> | <u>Dec-14</u> | <u>Fiscal Year To Date</u> | <u>12-Month</u> |
|----------------------------|---------------|----------------------------|-----------------|
| Total Fund | -0.7% | 0.7% | 8.0% |
| S & P 500 Index | -0.3% | 6.1% | 13.7% |
| 60/35/5* | -0.1% | 4.4% | 10.3% |
| Delaware | - 0.8% | 0.6% | 6.1% |
| 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

Assets in the Fund at the end of December totaled \$9,135 million. The Fund's December return of -0.7% slightly outperformed the Delaware Benchmark return. For the calendar year, the total Fund is up 8.0%, 1.9 percentage points above the Delaware Benchmark.

Markets in December had mixed results, with global equities down mildly, while high quality bonds were firm into year-end. The most significant events in December were the continuing collapse of the world's oil prices and the rise of the U.S. dollar. For the month, the broad market Russell 3000 had a flat return, while the MSCI EAFE index fell 3.5% (removing the impact of currency weakness, the EAFE index loss was only 1.4% in local currency). The broader MSCI All-Country World ex-U.S. stock index (which includes emerging markets) was down 3.6%. High quality bonds, as measured by the Barclays Aggregate index, had a slightly positive 0.1% return, while high yield bonds fell 1.4% (Barclays High Yield index) as credit spreads widened in the month. With oil's fall, inflation was less of a threat and the Barclays TIPS index fell 1.1%.

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

At its meeting on January 13th, the Investment Committee received a presentation from Winton Capital Management.

Following an asset allocation discussion, the Investment Committee voted to recommend to the Board the following actions by poll vote:

- Withdraw \$136 million from the Oaktree International Convertible account; allocate \$100 million to the Mellon Capital Aggregate bond index fund and \$36 million to the Sanderson International Equity fund.

The Investment Committee, under its power to amend manager agreements, voted to approve an amendment to the Schedule A for the Oaktree International Convertible account.

The scheduled January 27th Investment Committee meeting was canceled. The next meeting of the Investment Committee will be held on February 17th.

MOTION made by A. Agra and seconded by N. Shevock 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 A. Visalli and seconded by A. Agra to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

MOTION made by A. Visalli and seconded by A. Agra to approve to commit up to \$50 million to Flagship Ventures Fund V, L.P. Limited Partnership Subscription Agreement.

MOTION ADOPTED UNANIMOUSLY

MOTION made by N. Shevock and seconded by A. Agra to ratify the poll vote to withdraw \$136 million from the Oaktree International Convertible account; allocate \$100 million to the Mellon Capital Aggregate bond index fund and \$36 million to the Sanderson International Equity fund.

MOTION ADOPTED UNANIMOUSLY

MOTION made by A. Agra and seconded by N. Shevock 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 A. Visalli and seconded by A. Agra to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

8. **PENDING ITEMS**

There were no pending items.

9. **NEW BUSINESS**

There was no new business.

10. **ADJOURNMENT**

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