

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

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
Nancy Shevock
Tom Shaw
Art Agra
Helen Foster
Ann Visalli
Tom Cook

Trustees Absent

Others Present

Dave Craik, Pension Office
Kathy Kunkle, Pension Office
Terri Timmons, Pension Office
Ann Marie Johnson, Deputy Attorney General's Office
Josh Hitchens, Pension Office
Khairat Makanjuola, Pension Office
Jennifer Dilworth, Pension Office
Paul Roth, TBV Advisors
Rob Gooderham, Ashford Consulting Group
Jim Testerman, PAC
Charlotte Lister, PAC
Fiona Liston, Cheiron
Margaret Tempkin, Cheiron
Elizabeth Wiley, Cheiron

1. **OPENING COMMENTS**

S. Grant welcomed everyone to the meeting. She announced that the Investment Committee and Board meetings for next month will be held on November 17, 2015 at the Greenville Country Club. The Investment Committee meeting will begin at 9:00 a.m., and the Board meeting will begin at 1:30 p.m.

The December Investment Committee and Board meetings will be held on December 15, 2015 at the Greenville Country Club. The Investment Committee meeting will begin at 9:00 a.m. and the Board meeting will begin at 1:30 p.m. The CEO of T. Rowe Price will be presenting to both the Investment Committee and the Board.

2. **APPROVAL OF THE MINUTES**

The Trustees reviewed the Public Minutes of the September 25, 2015 meeting.

MOTION made by T. Shaw and seconded by N. Shevock to approve the Public Minutes of the September 25, 2015 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

The Trustees reviewed the Executive Minutes of the September 25, 2015 meeting.

MOTION made by T. Cook and seconded by N. Shevock to approve the Executive Minutes of the September 25, 2015 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

3. **PENSION AUDIT REPORT**

D. Craik introduced the new Cash & Debt Managers Josh Hitchens and Khairat Makanjuola. The Board welcomed them to the Pension Office.

D. Craik stated that the full draft of the CAFR had been completed this week and has been sent to KPMG for review. D. Craik thanked K. Kunkle for everything she has done this past year with reference to DPERS audit and that it could not have been completed without her. Audit comments will be presented at the December Board meeting. He did state that the IT comments were a carryover from the prior year. State auditors recently came to Pension Office and met with K. Kunkle with questions. There were no comments from them at the last Audit Committee meeting. D. Craik stated that the Audit Committee will begin meeting quarterly in 2016.

4. **PENSION ADVISORY COUNCIL REPORT**

C. Lister reported that the next meeting will be held in November.

5. **PENSION ADMINISTRATOR REPORT**

Risk Management

P. Roth reported that the Pension Office COOP project is on schedule with an onsite test on December 2nd.

He also stated that he has presented his top five concerns to the Audit Committee during their last meeting.

Governance Report

T. Shaw reported that all four sections of the report have been reviewed and corrections sent to AON Hewitt. Several meetings have taken place, including conference calls, with AON Hewitt. The report is extensive and there are several recommendations. He reported that we are on track to see a final draft before the December Board meeting. AON will be at the December Board meeting to present their findings and recommendations.

Quarterly Statistics

D. Craik reported that new pension applications were up 33%; deletes (Deaths & Retirees Returning to Work) were up 52%; phone calls have gone down 30%; refunds went up 33%; imaged items went up 22%; and internet visits were up 23% compared to the same time frame last year.

There were 7 cases for the quarter in reference to pension disabilities, which is about average.

Meeting Dates

D. Craik stated that the 2016 meeting dates were included in the Board binders. There is also a copy of the Appeal Hearing Dates and he asked that all Board Members sign up for three dates and give those to T. Timmons.

6. **DEPUTY ATTORNEY GENERAL REPORT**

Ms. Johnson provided copies of The National Association of Public Pension Attorneys (NAPPA) Report which she receives on a quarterly basis. She indicated that the newsletter is a wealth of information in reference to training areas such as seminars and conferences. She highlighted two articles in particular. First an article on the SEC's role in promoting the goals of Dodd-Frank by heeding pension funds' calls to bring more sunshine to private equity fees. Second, an article on the duty of pension trustees has to delegate investment management to experts.

7. ACTUARIAL REPORT

Fiona Liston, Elizabeth Wiley, and Margaret Tempkin, consultants with Cheiron, Inc. presented the Trustees DPERS' Fiscal 2015 Actuarial Valuation for the State Employees' Pension Plan. The following topics were discussed:

- Historical Review
 - Growth in Participation
 - Growth in Assets
 - Assets and Liabilities; and
 - Contributions
- Principal 6/30/15 Valuation Results
 - Key Statistics for the State Employees' Pension Plan
 - Number of active employees increased by 0.5%
 - Average salary increased by 0.5%
 - Number of retirees increased by 3.4%
 - Average benefit increased by 2.7%
 - Principal 6/30/15 Valuation Results
 - Actuarial Accrued Liability is \$9,051 million
 - Actuarial Value of assets is \$8,368 million
 - Unfunded Actuarial Liability is \$683 million
 - Funded ratio of 93%

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

State Employees'	9.58%
State Judicial	22.13%
State Police	18.19%
County/Municipal General	6.76%
County/Municipal P & F	13.77%
Diamond Port	9.43%
Volunteer Fire	\$439.99 per member

S. Grant asked if the Trustees' or the public had any questions about the 2015 Actuarial Valuation. A discussion of the merits concerning future benefit costs was conducted.

MOTION made by T. Cook and seconded by A. Visalli to adopt the FY16 employer contribution rates presented to the Board by Cheiron, Inc.

MOTION ADOPTED UNANIMOUSLY

S. Grant left the meeting and T. Shaw chaired the rest of the meeting.

8. INVESTMENT COMMITTEE REPORT

<u>Fund</u>	<u>Sept-14</u>	<u>Fiscal Year To Date</u>	<u>12-Month</u>
Total Fund	-2.2 %	-4.4%	-0.2%
S & P 500 Index	-2.5%	-6.4%	-0.6%
60/35/5*	-1.2%	-3.5%	0.7%
Delaware	-1.9%	-5.0%	-1.7%
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

Assets in the Fund at the end of September totaled \$8,803 million. The Fund's September return of -2.2% underperformed the Delaware Benchmark return of -1.9%. For the fiscal year to date, the total Fund was down 4.4%, versus the Delaware Benchmark return of -5.0%

Worries over a slowing Chinese economy's impact on global growth continued to weigh on investors in September. However, the main event was a decision by the Federal Reserve to delay hiking interest rates, which was interpreted as a lack of confidence in global economic growth. US equities fared better than most regions with the broad Russell 3000 index falling 2.9%, while the MSCI EAFE declined 5.1% and the MSCI All-Country World ex-U.S. stock index (which includes emerging markets) was down 4.6%. High quality fixed income again benefited from demand for safe-haven assets with a 0.7% return for the Barclays Aggregate, while the riskier JP Morgan Global High Yield index moved lower by 2.5% for the month.

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

At its meeting on September 29th, the Investment Committee met with manager Angelo Gorgon. In addition, the Investment committee had performed its annual review of portfolio commissions and proxy voting.

At its meeting on October 13th, the Investment Committee heard from Mellon Capital Management, who presented an actively managed TIPS strategy. The Investment Committee had voted to recommend that the Board, by poll vote, approve a transfer of the assets in the Mellon TIPS Index Fund to the actively managed TIPS strategy managed by Mellon Capital Management, subject to satisfactory terms and documentation.

At the Investment Committee's meeting on October 27th, the manager of the T. Rowe Price global natural resources account presented an update on the market environment and updated the Investment Committee on the portfolio's positioning. The Investment Committee also heard the semi-annual report on the Fund's private investment program.

The next meeting of the Investment Committee will be on Tuesday, November 17th.

MOTION made by A. Visalli 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 N. Shevock and seconded by A. Agra 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**

At 10:58 a.m., there being no further business, MOTION was made by A. Agra and seconded by N. Shevock to adjourn the meeting.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

David C. Craik
Pension Administrator