

STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
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BOARD OF PENSION TRUSTEES
MEETING MINUTES OF OCTOBER 27, 2017

The meeting of the Board of Pension Trustees was called to order by Suzanne Grant, Chair, at 9:01 a.m. in Delaware Conference Room in the Pension Office.

Trustees Present

Suzanne Grant
Art Agra
Helen Foster
Tom Shaw
Nancy Shevock
Rick Geisenberger

Trustees Absent

Mike Jackson

Others Present

Dave Craik, Pension Office
Joanna Adams, Pension Office
Terri Timmons, Pension Office
Ann Marie Johnson, Deputy Attorney General
Mary Wood, Pension Office
Khairat Makanjuola, Pension Office
Josh Hitchens, Pension Office
Jeff Johnson, Pension Office
Jennifer Dilworth, Pension Office
Paul Roth, TVB Advisors
Charlotte Lister, Pension Advisory Council
Rob Gooderham, Ashford Consulting Group
Gary Musto, Ashford Consulting Group
James Doyle, CPA, BDO Audit Engagement Partner
Brock Thomas, CPA, BDO Audit Manager
Keith Hammond, CPA, BDO Audit Director

Cindy Starr, Pension Office
Fiona Liston, FSA, Cheiron
Elizabeth Wiley, FSA, Cheiron
Margaret Tempkin, FSA, Cheiron

1. **OPENING COMMENTS**

S. Grant welcomed everyone to the meeting and introductions were made throughout the room.

2. **APPROVAL OF THE MINUTES**

The Trustees reviewed the Public Minutes of the September 29, 2017 meeting.

MOTION made by N. Shevock and seconded by H. Foster to approve the Public Minutes of the September 29, 2017 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

The Trustees reviewed the Executive Minutes of the September 29, 2017 meeting.

MOTION made by T. Shaw and seconded by A. Agra to approve the Executive Minutes of the September 29, 2017 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

3. **PENSION AUDIT REPORT**

D. Craik reported that the Audit Committee met last Friday to review and discuss the exit audit with BDO. Other areas discussed:

- The hiring of our Internal Auditor position, which the incumbent will begin on December 4th
- Working on the contract with internal audit services with KPMG
- Guidance from Elaine Starkey, DTI, in reference to cyber security and the impact on the contractual language

At this point D. Craik turned the meeting over to James Doyle, BDO Audit Engagement Partner, to discuss the status of the audit.

Mr. Doyle reported that the audit was complete at this time with the exception to a few administrative items. He stated that there were no surprises with the audit and will provide a clean or unmodified opinion. He also reported that Management's cooperation was excellent.

Keith Hammond, BDO, discussed the following items:

- Management did not make any significant changes to the processes or significant assumptions used to develop the significant accounting estimates in the fiscal year ended June 30, 2017 except as follows:
 - The long-term rate of return used to discount future obligations changed from 7.2% to 7.0%; and
 - Mortality tables were updated from RP-2000 to RP-2014
- There was one uncorrected misstatements, other than those that were clearly trivial, related to accounts and/or disclosures that we presented to management. BDO concurred with management's assessment that the effects of not recording such adjustment are both individual and in the aggregate, immaterial to the consolidated financial statements taken as a whole, considering both qualitative and quantitative factors. The proposed adjustment could not potentially cause future-period financial statement to be materially misstated.
- A discussion was held on the quality of the System's financial reporting.
- In regards to the internal control over financial reporting and in conjunction with the audit of the financial statements, there were no material weaknesses.

Brock Thomas, BDO, provided a summary of Other Required Communications and stated there were no significant changes to the audit strategy. Mr. Thomas also discussed the GASB Statement No. 82, concerning pension issues. The pronouncement was effective for the System's fiscal year ended June 30, 2017.

At this point in the meeting, S. Grant excused everyone from the meeting with the exception of the Trustees and BDO.

4. GOVERNANCE COMMITTEE

No report.

5. PENSION ADVISORY COUNCIL REPORT

No report.

6. PENSION ADMINISTRATOR REPORT

Positions

The office is scheduling interviews for those positions that have been approved thus far. We have had no new vacancies.

Pension Activities – 1st Quarter FY18

D. Craik reported the following activity:

- Healthcare changes were higher than last year due to the State terminating two healthcare plans.
- Estimates & Audits were lower due to no staff to work on these.
- Employee Attendance to Workshops were lower due to new location.
- Employer Attendance was higher due to having the DVFA attending.
- Imaged Items was lower due to more documents sent via electronic emails.
- Internet Homepage Visits were higher due to employees looking to retire are viewing pre-retirement information on-line.

For the 1st quarter of FY18, the Office of Pensions had four new disability cases.

Mr. Craik stated that there are several training classes scheduled for November.

Reporting Schedule

D. Craik stated that there were no changes but we have a lot of work in progress.

Meeting Dates

D. Craik reported that the 2018 Board, and Committees' meeting dates have been finalized and a copy is in each Board binder.

Mr. Craik also reported that the 2018 Pension Appeal Hearing dates have been finalized and asked that each Board Member notify Terri Timmons of the 2-3 dates they have signed up for.

Town of Frederica

D. Craik reported to the Board that the Town of Frederica would like to join the County/Municipal General Pension Plan beginning January 1, 2018. They currently have two new employees.

MOTION made by N. Shevock and seconded by R. Geisenberger to approve the Town of Frederica's two new employees to join the County/Municipal Pension Plan beginning January 1, 2018.

MOTION ADOPTED UNANIMOUSLY

7. DEPUTY ATTORNEY GENERAL REPORT

Ms. Johnson introduced the new temporary paralegal, Cindy Starr. Ms. Starr is helping Ms. Johnson with various projects.

Ms. Johnson also stated that the Board Handbook should be ready for review at the November Board meeting.

8. ACTUARIAL REPORT

Fiona Liston, Elizabeth Wiley, and Margaret Tempkin, consultants with Cheiron, Inc. presented the Trustees DPERS' Fiscal 2017 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 6/30/17 Valuation Reports
 - Key Statistics for the State Employees' Pension Plan
 - Number of active employees increased by 2.5%
 - Average salary increased by 4.1%
 - Number of retirees increased by 2.7%
 - Average benefit increased by 1.3%
 - Principal 6/30/17 Valuation Results
 - Actuarial Accrued Liability is \$10,045 million
 - Actuarial Value of assets is \$8,689 million
 - Unfunded Actuarial Liability is \$1,356 million
 - AVA Funded ratio of 87%
 - MCA Funded ratio of 85%

The following employer contribution rates for FY19 were presented to the Board by Cheiron Inc.:

State Employees'	11.83%
State Judicial	20.62%
State Police	24.23%
County/Municipal General	7.29%
County/Municipal P & F	16.68%
Diamond Port	9.48%
Volunteer Fire	\$450.30 per member

S. Grant asked if the Trustees' or the public had any questions about the 2017 Actuarial Valuation. A discussion of the merits concerning future benefit costs was conducted.

MOTION made by A. Agra and seconded by H. Foster to adopt the FY19 employer contribution rates presented to the Board by Cheiron, Inc.

MOTION ADOPTED UNANIMOUSLY

9. INVESTMENT COMMITTEE REPORT

Mr. Gooderham reported that Equity markets provided strong gains in September as economic data continued to point to an upswing in global growth. Several events weighed on sentiment at times during the period, including rising tensions with North Korea and several natural disasters, but had little effect on the generally positive trend. Additional details of the Republican tax reform framework and its impact on corporate earnings was also a significant driver of gains in the period. US equities as measured by the broad Russell 3000 index advanced 2.4%, while the MSCI EAFE index gained 2.5% and the MSCI All-Country World ex-U.S. stock index (which includes emerging markets) was up 1.9%. Within fixed income, interest rates moved higher (prices lower) due to expectations of tighter monetary policy and improving economic conditions. For the month, the Barclays Universal bond index was down 0.4%, the Barclays TIPS index gained -0.6%, while the riskier Barclays High Yield index was up 0.9%.

DPERS Fund assets are estimated to be \$9,664.00 million at September 30, 2017, representing a net increase of \$69.4 million during the month. Estimated returns through September 30, 2017 are as follows:

<u>Fund</u>	<u>Sep-17</u>	<u>Fiscal Year To Date</u>	<u>12-Month</u>
Total Fund	0.9%	2.7%	10.5%
S & P 500 Index	2.1%	4.5%	18.6%
60/35/5*	1.0%	3.0%	10.9%
Delaware	1.2%	3.4%	11.2%
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

Mr. Gooderham reported that, at the October 10th meeting, the Investment Committee reviewed and discussed:

- A recommendation on the Fund's International Equity allocation
- A presentation from Orbis Investment Management on their International Equity fund
- A presentation on the Fund's Commission and Proxy Voting Annual Review
- A presentation on the follow up questions for the Private Investment strategy

Under its authority to amend manager agreements, he advised that the Investment Committee had also approved limited partnership amendments for Onset V, L.P., and amendments to schedules attached to the investment management agreements for Mellon Capital Management and T. Rowe Price.

Mr. Gooderham then reported that the Investment Committee, at its October 24th meeting, reviewed and discussed:

- The Fund's performance and allocations as part of the Non-Traditional Investments Review
- A presentation on the MLP Asset Class
- A presentation on the Fund's Asset Allocation and Private Investments

Under its authority to amend manager agreements, he advised that the Investment Committee had also approved limited partnership amendments for Marcus Capital Partners Fund II. In addition, the Investment Committee had approved recommendations concerning voting the proxies for various Vanguard funds in which the Fund and the OPEB Trust had investments.

The next meeting of the Investment Committee is scheduled for Tuesday, November 12th.

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 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 R. Geisenberger to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

MOTION made by N. Shevock and seconded by T. Shaw to approve the investment of \$200 million with new manager Orbis Investment Management in their International Equity fund, with funding sources to be determined at the next Investment Committee meeting.

MOTION ADOPTED UNANIMOUSLY

MOTION made by H. Foster and seconded by T. Shaw to ratify the poll vote and approve the withdrawal of \$200 million from the Harvest Fund Advisors account to be invested with proceeds to be allocated to the Mellon Non-Securities Lending S&P 500 Index Fund.

MOTION ADOPTED UNANIMOUSLY

MOTION made by H. Foster and seconded by A. Agra to enter into Executive Session to consider pension personnel matters, and confidential medical records, legal matters, sensitive commercial 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**

At 11:56 a.m., there being no further business, MOTION was made by S. Grant and seconded by N. Shevock to adjourn the meeting.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

David C. Craik
Pension Administrator

Suzanne Grant, Chair
Board of Pension Trustees