



**STATE OF DELAWARE**  
**STATE BOARD OF PENSION TRUSTEES**  
**AND**  
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**BOARD OF PENSION TRUSTEES**  
**MEETING MINUTES OF OCTOBER 26, 2018**

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  
Nancy Shevock  
Helen Foster  
Tom Shaw  
Mike Jackson  
Rick Geisenberger

Trustees Absent

Art Agra

Others Present

Dave Craik, Pension Office  
Joanna Adams, Pension Office  
Terri Timmons, Pension Office  
Khariat Mankanjuola, Pension Office  
Jennifer Dilworth, Pension Office  
Stephenie Tatman, Pension Office  
Mary Wood, Pension Office  
Josh Hitchens, Pension Office  
Jeff Johnson, Pension Office  
Paul Roth, TBV Advisors  
Rob Gooderham, Windmark  
Garry Musto, Windmark  
Jim Testerman, Pension Advisory Council  
Joe Malloy, Pension Advisory Council  
Melissa Marlin, OMB Budget Analyst  
Fiona Liston, Cheiron  
Margaret Tempkin, Cheiron

**1. OPENING COMMENTS**

S. Grant read from an article posted on October 19<sup>th</sup> that on October 18, 2018, the Federal Bureau of Investigation formally recognized two employees of the Office of Auditor of Accounts (AOA) for their assistance with two cases. Auditors Nicole Polite and Stephenie Tatman played a key role in the investigation that led to former Academy of Dover Charter School Principal, Noel Rodriguez, being sentenced to 13 months of imprisonment and \$145,480 in restitution payments. Additionally, Polite and Tatman conducted the investigation of the Family Foundations Academy, which led to Sean Moore, the Director of Finance and Operations for the Family Foundations Academy, being sentenced to 18 months of imprisonment for embezzling \$161,871 from the school.

In the article, R. Thomas Wagner stated, "Without the work of Stephenie and Nicole, the arrest and prosecution of both Rodriguez and Moore might not have been possible. Our auditors work day in and day out to protect the tax dollars of Delawareans, and I am thankful for the contributions that Stephenie and Nicole had in bringing these violators of the public trust to justice."

Nicole Polite, a Certified Fraud Examiner, has been employed with the AOA office since 2014. She is currently an Audit Supervisor.

Stephenie Tatman, a Certified Public Accountant and Certified Fraud Examiner, was hired by the AOA office in 2007 and was promoted to Audit Manager. She is currently the Internal Audit Director for the Office of Pensions.

S. Grant congratulated Ms. Tatman, on behalf of the Board, on her accomplishments.

The annual Board Luncheon will be held on November 16<sup>th</sup> immediately following the Board meeting.

**2. APPROVAL OF THE MINUTES**

The Trustees reviewed the Public Minutes of the September 28, 2018 meeting.

MOTION made by N. Shevock and seconded by T. Shaw to approve the Public Minutes of the September 28, 2018 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

The Trustees reviewed the Executive Minutes of the September 28, 2018 meeting.

MOTION made N. Shevock by and H. Foster seconded by to approve the Executive Minutes, as amended, of the September 28, 2018 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

**3. PENSION AUDIT REPORT**

D. Craik reported that the next Audit Committee Meeting would be held on November 2<sup>nd</sup>. External Auditor BDO will be presenting their exit audit. S. Tatman and KPMG will also be making presentations.

#### **4. GOVERNANCE COMMITTEE**

T. Shaw stated that the October meeting had been canceled due to impending weather and has been rescheduled for November 20<sup>th</sup>.

#### **5. PENSION ADVISORY COUNCIL REPORT**

J. Malloy stated that the next Pension Advisory Council meeting would be held in November.

#### **6. PENSION ADMINISTRATOR REPORT**

##### 2018 Actuarial Valuations

Fiona Liston and Margaret Tempkin, consultants with Cheiron, Inc. presented the Trustees DPERS' Fiscal 2018 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 6/30/18 Valuation Reports
  - Key Statistics for the State Employees' Pension Plan
    - Number of active employees decreased by -0.1%
    - Average salary increased by 2.3%
    - Number of retirees increased by 3.0%
    - Average benefit increased by 1.3%
  - Principal 6/30/18 Valuation Results
    - Actuarial Accrued Liability is \$10,419 million
    - Actuarial Value of assets is \$8,951 million
    - Unfunded Actuarial Liability is \$1,468 million
    - AVA Funded ratio of 86%
    - MVA Funded ratio of 87%

The following employer contribution rates for FY20 were presented to the Board by Cheiron Inc.:

|                          |                     |
|--------------------------|---------------------|
| State Employees'         | 11.96%              |
| State Judicial           | 19.34%              |
| State Police             | 24.12%              |
| County/Municipal General | 7.28%               |
| County/Municipal P & F   | 16.84%              |
| Diamond Port             | 9.73%               |
| Volunteer Fire           | \$445.19 per member |

The amortization technique for the State Employees' Plan was changed in the 2007 valuation to use an open (or rolling) amortization period. This was done when the Plan was over 100% funded in an effort to "tread water" and keep the Plan over 100% funded.

Cheiron is recommending that the Board consider closing the amortization period for the existing unfunded liability and create amortization layers for new gains, losses, and assumption change that occur in future years. The change would impact the State Police as well.

- If the Board keeps the 20-year period in place for this valuation and starts to drop it in the future years, the contribution rate would not change from the 11.96% developed in this valuation.
- Recommend using a 15-year period for newly arising gains and losses.

There was a hearty discussion on the pros and cons of making this change.

MOTION made by T. Shaw and seconded by N. Shevock to approve the recommendation of closing the amortization period for existing unfunded liabilities and using the 15-year period for newly arising gains and losses. R. Geisenberger abstained from voting.

MOTION ADOPTED UNANIMOUSLY

MOTION made by H. Foster and seconded by T. Shaw to adopt the FY20 employer contribution rates presented to the Board by Cheiron, Inc.

### **Risk Management**

Nothing to report.

## **Positions**

D. Craik reported that we have recently filled two of our vacant positions, which now leaves three vacancies.

## **Quarterly Activities**

- There was a decrease in Healthcare Changes due to no changes during healthcare reopening.
- We have been working with DTI regarding our phone reports. This should be updated for the next quarter.
- There was an increase in our Internet Homepage Visits which may be due to more employees interested in retiring in the near future.
- Disability Report – there are currently four new cases, which is our average.
- There are seven employer trainings scheduled for the month of November.

## **Meeting Dates**

D. Craik stated that the 2019 meeting dates for the Board and its Committees have been scheduled and are included in the binders.

The 2019 Appeal Hearing dates have been finalized and Mr. Craik asked that each Trustee sign up for two to three hearings.

## **Diamond State Port**

Several meetings have been held at the Port with staff from the Office of Pensions to review with employees what their options are. These employees will be allowed to retire, refund their contributions or vest their pension. As of now, there are 95 employees retiring from the plan, 131 will receive a refund in January, and there are 85 members we have not heard from. If we do not hear from them, we will automatically vest these employees.

## **Reporting Schedule**

D. Craik stated that the Reporting Schedule has been updated to reflect recent reviews.

## **7. DEPUTY ATTORNEY GENERAL REPORT**

**MOTION** made by H. Foster 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 N. Shevock and seconded by T. Shaw to exit Executive Session.

**MOTION ADOPTED UNANIMOUSLY**

**MOTION** made by N. Shevock and seconded by H. Foster to approve the Board recommendation to deny Richard Parson’s request for a duty-connected disability pension appeal.

**MOTION ADOPTED UNANIMOUSLY**

**8. INVESTMENT COMMITTEE REPORT**

Mr. Gooderham reported that during the month of September, signs of robust economic growth in the U.S. overshadowed ongoing trade tensions as the Russell 3000 index managed a 0.2% gain. Developed international stocks also managed a modest gain as the MSCI EAFE index was up 0.9%, while emerging markets stocks continued to struggle and fell 0.5%, as measured by the MSCI Emerging Markets index. Returns in fixed income markets were challenged by interest rates that continued to trend higher, resulting in a 0.4% loss for the Bloomberg Barclays Universal bond index.

Mr. Gooderham reported that DPERS Fund assets are estimated to be \$10,219.3 million at September 30, 2018, representing a net decrease of \$22.9 million during the month. Estimated returns through September 30, 2018 are as follows:

| <u>Fund</u>                | <u>Sep-18</u> | <u>Fiscal Year To Date</u> | <u>12-Month</u> |
|----------------------------|---------------|----------------------------|-----------------|
| <b>Total Fund</b>          | 0.0%          | 3.9%                       | 9.7%            |
| <b>S &amp; P 500 Index</b> | 0.6%          | 7.7%                       | 17.9%           |
| <b>60/35/5*</b>            | 0.1%          | 4.6%                       | 10.1%           |
| <b>Delaware</b>            | 0.0%          | 2.9%                       | 6.5%            |
| <b>Benchmark**</b>         |               |                            |                 |

\*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 the Investment Committee had met twice since the last Board meeting. He noted that at its October 9<sup>th</sup> meeting, the Investment Committee reviewed and discussed presentations on:

- An introduction to Investment Beliefs
- A presentation from Loomis Sayles on their Multi-Sector Full Discretion Fixed Income Strategy
- A fixed Income Portfolio Structure and Strategy Review

Mr. Gooderham reported that at its October 23<sup>rd</sup> meeting, the Investment Committee reviewed and discussed presentations on:

- An Equity Portfolio Structure and Strategy Review
- A presentation from Sanderson on their International Value Strategy
- The Private Investments Semi-Annual Review
- The Windmark Investment Partners Services Review

He also reported that the Investment Committee had approved, under the authority granted to them by the Board, at its October 23<sup>rd</sup> meeting, amendments to the limited partnership agreements for Media Technology Venture III Pledge, Media Technology Venture IV, and Summit Partners Subordinated Debt V.

The next meeting of the Investment Committee is scheduled for Tuesday, November 13, 2018.

S. Grant recommended that the Board approve Pamela Tikellis as DPERS' newest Investment Committee Member. Ms. Tikellis was a founding partner of Chyimicles & Tikellis LLP, a leading national law firm specializing in prosecuting complex federal and state representative litigation. Ms. Tikellis has been recognized for her extensive knowledge in areas of Delaware corporate law, fiduciary responsibility, securities and investments and matters related to protecting and promoting the rights of institutional investors.

**MOTION** made by N. Shevock and seconded by H. Foster to approve the nomination of Pamela Tikellis as a member of DPERS' Investment Committee.

**MOTION ADOPTED UNANIMOUSLY**

**MOTION** made by H. Foster 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 H. Foster and seconded by T. Shaw 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 12:04 p.m., there being no further business, MOTION was made by N. Shevock and seconded by T. Shaw to adjourn the meeting.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

David C. Craik  
Pension Administrator

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Suzanne Grant, Chair  
Board of Pension Trustees