



STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
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BOARD OF PENSION TRUSTEES
MEETING MINUTES OF NOVEMBER 16, 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
Art Agra
Rick Geisenberger

Trustees Absent

Mike Jackson

Others Present

Dave Craik, Pension Office
Terri Timmons, Pension Office
Khariat Makanjuola, Pension Office
Jennifer Dilworth, Pension Office
Stephenie Tatman, Pension Office
Khairat Makanjoula, Pension Office
Jeff Johnson, Pension Office
Paul Roth, TBV Advisors
Rob Gooderham, Windmark
Seth Yablonsvitz, Windmark
Jim Testerman, Pension Advisory Council
Charlotte Lister, Pension Advisory Council

1. OPENING COMMENTS

S. Grant welcomed everyone to the meeting. She announced that the December Board meeting would be held on December 11th at 12:30 at the Greenville Country Club. The Investment Committee meeting would be held on the same day and place beginning at 8:30. The Investment Committee and Board are invited to an educational meeting on December 10th at 6:00 p.m.

2. APPROVAL OF THE MINUTES

The Trustees reviewed the Public Minutes of the October 26, 2018 meeting.

MOTION made by A. Agra and seconded by T. Shaw to approve the Public Minutes of the October 26, 2018 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

The Trustees reviewed the Executive Minutes of the October 26, 2018 meeting.

MOTION made N. Shevock by and seconded by A. Agra to approve the Executive Minutes, as amended, of the October 26, 2018 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

2. PENSION AUDIT REPORT

The Audit Committee met on November 2nd. The external auditors from BDO presented the Audit Committee with the external exit audit. D. Craik stated that there were two minor audit comments that management has responded to. BDO will be at the December Board meeting to give their report.

Internal Audit – S. Tatman reported that the census data report has been completed. She will present the findings to the Board at the February Board meeting. This will be a report for the entire year. Ms. Tatman stated that she is now focusing on employer audits. She also announced that the Office of Pensions Fraud Hotline goes live today. There will be an article in the December Retiree Newsletter; posters placed within the office, and information will be on our Internet.

The next meeting of the Audit Committee will be held on February 8th.

4. GOVERNANCE COMMITTEE

T. Shaw announced that the next Governance Committee meeting would be held on November 20th.

5. PENSION ADVISORY COUNCIL REPORT

C. Lister announced that the Council met on November 13th and all officers were returned to the same positions. Their top goal is to push for a 2% Post Retirement Increase (PRI) for retirees, but if a retiree has been retired more than 20 year's they would like to see a 3% PRI. Provide an increase to the \$7,000 burial benefit and not change health insurance benefits.

6. PENSION ADMINISTRATOR REPORT

Risk Management

Nothing to report.

Positions

As of today, we have five positions, four of which are vacant. John McCartney, our Information Systems Manager is retiring effective February 1, 2019. Mr. Craik stated that we have started the recruitment process now for Mr. McCartney's position. Mr. McCartney has documented his transition plan and is working with D. Craik so that there is a smooth transition.

Activities Report

D. Craik stated that the classes for November are for employer trainings. There are also group-counseling sessions scheduled.

Reporting Schedule

D. Craik reported that some of the open items would be handled by the Governance Committee.

Resolution

Millsboro Fire Company wants to enter into the County & Municipal paid pension plan as of January 1, 2019. This will be for new members hired after this date.

MOTION made by N. Shevock and seconded by A. Agra to approve the Millsboro Fire Company to enter into a contract with the State Board of Pension Trustees to allow the Fire Company to participate in the County & Municipal Pension Plan.

MOTION ADOPTED UNANIMOUSLY

Diamond State Port Update

D. Craik reported that as of today there are 82 Port Employees retiring, 123 are submitting documents to receive a refund of their contributions, which will be paid in January. There are 174 employees who are vesting their pension, of which, 79 of those employees have not contacted us so we will be placing them in vested status. A new file will be sent to our Actuary, Cheiron, so that a new valuation can be prepared.

7. DEPUTY ATTORNEY GENERAL REPORT

Ms. Johnson reported that the Investment Committee had met and discussed commingling of the OPEB Trust assets into the DPERS Fund for investment purposes. OPEB is a trust fund created to fund health care expenses for retirees. Ms. Johnson asked the Board to approve a Resolution to adopt authorize the co-mingling of the OPEB trust. She also asked the Board to adopt the amendments to the OPEB Trust to allow for commingling.

MOTION made by A. Agra and seconded by H. Foster to approve the Resolution of the Board of Pension Trustees of the Delaware Public Employees Retirement System may transfer all or any portion of the assets of the OPEB Trust to a Group Trust, as permitted under Revenue Ruling 810100, Revenue Ruling 2011-1, Notice 2012-6, and Revenue Ruling 2014-24 that is operated or maintained exclusively for the commingling and collective investment of monies, provided that the funds in such Group Trust consist exclusively of trust assets held under plans qualified under Code Section 401(a).

MOTION ADOPTED UNANIMOUSLY

MOTION made by A. Agra and seconded by H. Foster to approve the Amendments to the OPEB Trust to authorize comingling of the OPEB trust in the DPERS trust for the purpose of investment.

MOTION ADOPTED UNANIMOUSLY

S. Grant, on behalf of the Board, thanked A. Johnson, Windmark, and D. Craik for all their hard work on the OPEB amendment and resolution documents.

8. INVESTMENT COMMITTEE REPORT

Mr. Gooderham reported that the global equity markets suffered steep losses in October on concerns over rising long-term interest rates, trade tensions and slowing growth in China. Despite these risks, US economic data and corporate earnings were largely positive, although some were weaker than expected. US equities, as measured by the Russell 3000 index, declined 7.4%, the largest monthly decline in seven years. International equity markets fared worse, with the MSCI EAFE index falling 8.0% and the SMI Emerging Markets index dropping 8.7%. Fixed income markets also declined as strong economic data and expectations of tighter monetary policy sent interest rates higher (prices lower). For the month, the Bloomberg Barclays Universal bond index was down 0.8%, the Bloomberg Barclays TIPS index declined 1.4%, while the riskier Bloomberg Barclays TIPS index declined 1.4%, while the riskier Bloomberg Barclays High Yield index fell 1.6%.

Mr. Gooderham reported that DPERS Fund assets are estimated to be \$9,884.6 million at October 31, 2018, representing a net decrease of \$334.8 million during the month. Estimated returns through October 31, 2018 are as follows:

<u>Fund</u>	<u>Oct-18</u>	<u>Fiscal Year To Date</u>	<u>12-Month</u>
Total Fund	-3.0%	0.9%	5.3%
S & P 500 Index	-6.8%	0.3%	7.3%
60/35/5*	-4.4%	0.0%	3.8%
Delaware	-4.8%	-1.9%	0.2%
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

Further to Ms. Johnson's report on the commingling of OPEB Trust assets into the DPERS Fund, Mr. Gooderham noted that the Investment Committee had discussed the commingling of the two pools of assets and had concluded that neither trust was impacted in an adverse way by the move.

Mr. Gooderham then reported that the Investment Committee, at its November 13th meeting, had reviewed and discussed:

- An OPEB Trust meeting
- A presentation from Kiltarn on their Global Equity Strategy
- Quarterly Investment Review
- A presentation by the Pension Administrator on the latest actuarial valuation and the Fund's annual cash flow forecast
- A Market Outlook and Risk Strategy discussion
- A recommendation on Flagship Opportunities Fund II
- A recommendation to reallocate the OPEB Trust's assets.

The next meeting of the Investment Committee is scheduled for Tuesday, December 11, 2018.

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

MOTION ADOPTED UNANIMOUSLY

MOTION made by N. Shevock and seconded by A. Agra to approve a commitment of up to \$40 million in Flagship Pioneering Opportunities Fund II, subject to legal review of the documentation.

MOTION ADOPTED UNANIMOUSLY

MOTION made by T. Shaw and seconded by A. Agra to approve, once receipt of the OPEB Trust assets in the DPERS Fund is confirmed, that the Office of Pensions, working with Windmark, execute the following transactions (percentages to be applied to the market value of the OPEB assets upon receipt by DPERS):

- Liquidate Vanguard Total Stock Market Index
- Liquidate Vanguard Total International Stock Market Index
- Liquidate Vanguard Total Bond Market Index
- Liquidate NTRS Prime Obligations Fund
- Purchase 6.7% in Wellington Dividend Growth
- Purchase 5.7% in AJO Managed Volatility
- Purchase 5.4% in Focused Investors

- Purchase 2.9% in BlackRock S&P 500
- Purchase 3.5% in BlackRock Russell 1000 Value
- Purchase 7.5% in T. Rowe Price Global Growth Equity
- Purchase 6.4% in Kiltearn Global Equity
- Purchase 4.2% in Baillie Gifford Long Term Global Growth
- Purchase 4.9% in Sanderson International
- Purchase 2.3% in Orbis International
- Purchase 1.5% in T. Rowe Price Asia Opportunities
- Purchase 13.6% in BlackRock Aggregate Bond Index
- Purchase 4.9% in BNY Mellon TIPS Strategy
- Purchase 5.7% in Loomis Sayles Multi-Sector Full Discretion
- Purchase 5.2% in T. Rowe Price Floating Rate Fund
- Purchase 5.7% in DoubleLine Total Return
- Remainder to be invested in the Cash Account

MOTION ADOPTED UNANIMOUSLY

9. **PENDING ITEMS**

There were no pending items.

10. **NEW BUSINESS**

There was no new business.

11. **ADJOURNMENT**

At 11:05 a.m., there being no further business, MOTION was made by A. Agra and seconded by T. Shaw to adjourn the meeting.

MOTION ADOPTED UNANIMOUSLY

Mr. Gooderham also noted that, in line with the Risk Strategy analysis, the Investment Committee had requested for the December meeting a review of the hedge fund strategy, and a specific recommendation to bring the Fund's risk level back within the guideline range in the short term, and a plan to bring the risk level down to a level commensurate with the -10% downside risk level during 2019.

RISK MANAGEMENT

Dashboards - there were no significant changes from last month.

At this point N. Shevock left the meeting.

DEPUTY ATTORNEY GENERAL

Ms. Johnson stated that she is still working on three contracts: Cyber Security, Fraud, and Actuarial Audit.

Mr. Craik stated that staff were working on programming for the \$400 retiree bonus that will be paid on November 30th. Things seem to be going well. He recommended that if this happens again to not tie the retiree monthly benefit with a bonus.

MOTION made by H. Foster and seconded by A. Agra to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,



David C. Craik
Pension Administrator



Suzanne Grant, Chair
Board of Pension Trustees