

STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
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BOARD OF PENSION TRUSTEES
MEETING MINUTES OF MARCH 23, 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
Mike Jackson
Art Agra
Tom Shaw

Trustees Absent

Helen Foster
Rick Geisenberger

Others Present

Dave Craik, Pension Office
Joanna Adams, Pension Office
Terri Timmons, Pension Office
Ann Marie Johnson, Deputy Attorney General
Khairat Mankanjuola, Pension Office
Jeff Johnson, Pension Office
Jennifer Dilworth, Pension Office
Stephenie Tatman, Pension Office
Josh Hitchens, Pension Office
Jeff Johnson, Pension Office
Paul Roth, TBV Advisors
Joe Malloy, Pension Advisory Committee
Garry Musto, Windmark Investment Partners
Seth Yablonovitz, Windmark Investment Partners
Charlotte Lister, Pension Advisory Council
Jim Testerman, Pension Advisory Council

1. **OPENING COMMENTS**

S. Grant welcomed everyone to the meeting.

2. **APPROVAL OF THE MINUTES**

The Trustees reviewed the Public Minutes of the February 23, 2018 meeting.

MOTION made by N. Shevock and seconded by T. Shaw to approve the Public Minutes of the February 23, 2018 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

The Trustees reviewed the Executive Minutes of the February 23, 2018 meeting.

MOTION made by T. Shaw and seconded by A. Agra to approve the Executive Minutes of the February 23, 2018 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

3. **PENSION AUDIT REPORT**

The next meeting of the Audit Committee will be on May 4, 2018.

4. **GOVERNANCE COMMITTEE**

Nothing to report.

5. **PENSION ADVISORY COUNCIL REPORT**

Nothing to report.

6. **PENSION ADMINISTRATOR REPORT**

Risk Management

Nothing to report.

Reporting Schedule

D. Craik stated that the Governance Committee would be reviewing and working on some of the Reporting Schedule items.

Positions

D. Craik reported that we have recently filled two positions. Two other positions are in the process of interviews, whereas, the other three positions are on hold.

Pension Office Activities

D. Craik reported that the spring Pre-Retirement Workshops have been scheduled for the month of April. Earlier this week we held a pre-retirement workshop at the State Fire School where we had roughly 25 attendees.

Group Counseling

D. Craik stated that the Group Counseling Sessions, which had been suspended due to vacant positions within the Office of Pensions, would be starting back up in April.

Legislation

HB 312 – An act to amend Title 11 of the Delaware Code relating to the Delaware County and Municipal Police/Firefighter Pension Plan. This Act includes “emergency medical technicians” within the definition of employee under the County/Municipal Police/Firefighter Pensions Plan. The House passed this bill on March 22, 2018.

SB 95 – Amendment SA 1 was introduced. The bill amends the multiplier retroactively for the calculation of pension benefits for correction officers and specified peach officers.

Actuarial Request for Proposal (RFP)

D. Craik reported that the RFP closed on March 22, 2018. He expects to complete interviews with the finalist firms sometime in mid-April.

7. DEPUTY ATTORNEY GENERAL REPORT

Ms. Johnson reported that she had attended the National Association of Public Pension Attorneys (“NAPPA”) conference. Below are some of the key updates in the field of public pension law presented at the conference:

- Investment Section Meeting
 - Subscription Agreements – The Creation of a Standard Uniform Template: Presentation on the use of the standard ILPA template for Subscription purposes.
 - Key takeaway: Useful tool to reduce legal fees and facilitate compliance. DPERS is already “standardizing” some aspects of its subscription process, including a standard notice list, and CRS reps.
 - Strategies for Negotiating Best Terms Before Investing and Available Exit Strategies:
 - Key takeaway: Understand the deal, your GP and your role. Delicate to discuss exits at the onset of the negotiations, but necessary.
 - Everything LPs Need to Know About Credit Facilities:
 - Key takeaway: ILPA has addressed. Not all credit is bad – but it is essential to understand how it is being used deal to deal. Important to limit use to short-term use, and to review cross capitalization arrangements. Look for alignment of interests. Howard Mark’s memo was discussed.
- Fiduciary and Plan Governance Section
 - Public Pension System Operational Compliance:
 - Key takeaway: Systems need a Chief Compliance Officer, “CCO.” Considerable discussion on the importance, and where the oversight should occur. General consensus is that internal audit needed independence, and should not be tasked with compliance. Compliance officer should report to “Board or Legal.” Legal should not serve as CCO, because it would defeat Attorney-Client Privilege.
 - Delegation Without Abdication:
 - Key takeaway: No system indicated that it had an approach like DPERS (which uses an insurance company to make determinations.) Issues of proof explored. Advantages of greater delegation of Investment Manager Selection were that it freed up Board time, and allowed for more opportunistic investments.
- Benefit Section
 - When Public Pension Plans Sue Their Actuaries
 - Key takeaway: Actuarial Audit is the best protection. Need to draft contracts carefully to avoid draconian limitation of liability.
 - State and Local Pension Reform Since the Financial Crisis
 - Key takeaway: The majority of public pension systems responsibly address funding issues.
 - Limitations on Changes-“Tracks of My Tiers”
 - Key takeaway: Some case law finds a vested right to essential benefits by virtue of entering into an employment arrangement.
- Tax Section
 - Demystifying the Legislative process
 - Key takeaway: UBIT rule was intended to be a “clarification.” Private Equity, and key state pension plans were instrumental in an expedited effort to remove these provisions from TCJA.

- TCJA: Impact on Tax Qualified Plans
 - Key takeaway: Relevant to 457 and 403(b).
- Win Some, Lose Some: UBIT and Plan Sponsor Obligations Under the TCJA
 - Key takeaway: This will remain on the radar for the foreseeable future.
- Senior Counsel Section
 - UBIT and Other Hot Investment Topics
 - Key takeaway: In Private Equity deals, the devil is in the details.
 - Using Social or Political Criteria in Making Investment Decisions for Pension Plans
 - Key takeaway: ETI and ESG based investments are acceptable as the “tie-breakers when all “other things are equal.” If the costs of investing in accordance with social considerations is *de minimus*, the duty of prudence is not violated. Policies, which promote ETI and/or ESG and are not per se a violation of fiduciary duty. Important to develop clear policy and document decision making.
 - After the Breach: When the Worst Happens, What Happens?
 - Key takeaway: Immediate reaction and extensive media campaign were effective.

8. INVESTMENT COMMITTEE REPORT

Global stock markets declined in February, snapping a streak of 15 consecutive months of positive performance as measured by the MSCI AC World index. The decline for the period was driven by weakness early in the month on concerns of higher inflation and the prospect that the Federal Reserve may need to pursue a more aggressive pace of rate hikes. As the month progressed, equities rallied as the trend of favorable economic data and corporate earnings continued. The broad Russell 3000 index declined 3.7%, while the MSCI EAFE index was down 4.5% and the MSCI All-Country World ex-U.S. stock index (which includes emerging markets) declined 4.7%. For the month, the Barclays Universal bond index was down 0.9%, the Barclays TIPS index fell 1.0%, while the riskier Barclays High Yield index fell 0.8%.

DPERS Fund assets are estimated to be \$9,936.3 million at February 28, 2018, representing a net decrease of approximately \$206 million during the month. Estimated returns through February 28, 2018 are as follows:

| <u>Fund</u> | <u>Feb-17</u> | <u>Fiscal Year To Date</u> | <u>12-Month</u> |
|----------------------------|---------------|----------------------------|-----------------|
| Total Fund | -1.7% | 7.6% | 11.4% |
| S & P 500 Index | -3.7% | 13.5% | 17.1% |
| 60/35/5* | -2.6% | 7.7% | 10.3% |
| Delaware | -2.7% | 7.0% | 10.7% |
| 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

Mr. Musto reported that at the March 13, 2018 Investment Committee meeting the Investment Committee reviewed and discussed the following:

- A Market Outlook presentation
- Private Investment presentations on:
 - Asset Allocation/Strategy
 - Meritech Capital Partners Fund VI due diligence report
- Asset allocation presentation on Centerbridge Credit Partners
- A Taiwan Country Opening presentation
- The Fund's performance and allocations as part of the 4th quarter Investment Review
- The OPEB Trust's performance and allocations as part of the 4th quarter Investment Review
- The Investment Committee approved, under the authority granted to them by the Board, an Amendment to the Limited Partnership Agreement for Summit Ventures Fund VI-A.

The next meeting of the Investment Committee is scheduled for April 10, 2018.

MOTION made by T. Shaw 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 A. Agra to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

MOTION made by A. Agra and seconded by N. Shevock to approve the liquidation, at the end of June 2018, of the redeemable portion of the Centerbridge Credit Partners investment (approximately \$5.3 million) with proceeds allocated to the Cash account.

MOTION ADOPTED UNANIMOUSLY

MOTION made by T. Shaw and seconded by N. Shevock to approve a commitment of up to \$40 million in Meritech Capital Partners Fund VI, subject to legal review of the documentation.

MOTION ADOPTED UNANIMOUSLY

9. **PENDING ITEMS**

There were no pending items.

10. **NEW BUSINESS**

There was no new business.

11. **ADJOURNMENT**

At 10:43 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

Suzanne Grant, Chair
Board of Pension Trustees