

STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
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BOARD OF PENSION TRUSTEES
MEETING MINUTES OF OCTOBER 25, 2019

The meeting of the Board of Pension Trustees was called to order by Suzanne Grant, Chair, at 9:03 a.m. in the Delaware Conference Room.

Trustees Present

Suzanne Grant
Nancy Shevock
Mike Jackson
Art Agra
Tom Shaw
Harold Stafford
Rick Geisenberger

Trustees Absent

Others Present

Dave Craik, Pension Office
Joanna Adams, Pension Office
Jamie Mayan, Pension Office
Ann Marie Johnson, Deputy Attorney General
Josh Hitchens, Pension Office
Khariat Makanjuola, Pension Office
Jeff Johnson, Pension Office
Stephenie Tatman, Pension Office
Rob Gooderham, Windmark
Seth Yablonovitz, Windmark
Charlotte Lister, Pension Advisory Council
Joe Malloy, Pension Advisory Council
Amy Cole, Pension Office
Mary Wood, Pension Office
Kristal Diaz, Pension Office
Tiffany Dailey, Office of Management and Budget
Fiona Liston, Cheiron
Elizabeth Wiley, Cheiron

Margret Tempkin, Cheiron

1. OPENING COMMENTS

S. Grant welcomed everyone to the meeting and announced the December Board meeting has been moved to Friday December 6th at the Greenville Country Club. The Investment Committee meeting will begin at 8:30 a.m. The Board meeting will begin at 12:30 p.m. A guest speaker will be presenting to the Investment Committee and Board members on December 5th beginning at 6 p.m.

2. APPROVAL OF THE MINUTES

The Trustees reviewed the Public Minutes of the September 27, 2019 meeting.

MOTION made by T. Shaw and seconded by H. Stafford to approve the Public Minutes of the September 27, 2019 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

The Trustees reviewed the Executive Minutes of the September 27, 2019 meeting.

MOTION made by T. Shaw and seconded by A. Agra to approve the Executive Minutes, as amended, of the September 27, 2019 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

3. GOVERNANCE COMMITTEE

Nothing to report.

4. AUDIT COMMITTEE UPDATE

D. Craik reported on the fraud hotline stating there have been no calls or comments regarding any type of fraud within the system.

K. Mankanjuola reported that the exit interview with the external auditors, BDO LLP, is scheduled for the November 15th Audit Committee meeting. The CAFR is with the Auditor of Accounts who has ten days to complete review. The OPEB Audit is going well with no comments from BDO.

S. Tatman reported that the external audit RFP is complete. Government Support Services (GSS) should post the RFP on their GSS website on November 1st. Internal Audit is working on

succession planning that will be completed in two phases. The current focus is on documenting processes and ensuring knowledge transfer for the Pension Administrator position. An internal audit of investments is in process and is going very well.

5. PENSION ADVISORY COUNCIL REPORT

J. Malloy stated it is time for elections of the Pension Advisory Council officers if anyone is interested. PRI for retirees is the current legislative of the Pension Advisory Council.

6. PENSION ADMINISTRATOR REPORT

FY 19 Actuarial Valuation Results

D. Craik welcomed Fiona Liston, Elizabeth Wiley, and Margaret Tempkin consultants with Cheiron, Inc. who presented the Trustees DPERS' Fiscal 2019 Actuarial Valuation for the State Employees' Pension Plan. The following topics were discussed:

- Historical Review
 - Growth in Participation
 - Growth in Assets and Liabilities
 - Risk Metrics
 - Contributions
- Principal 6/30/19 Valuation Reports
 - Key Statistics for the State Employees' Pension Plan
 - Number of active employees increased by 1.8%
 - Average salary increased by 2.4%
 - Number of retirees increased by 2.9%
 - Average benefit increased by 1%
 - Principal 6/30/19 Valuation Results
 - Actuarial Accrued Liability is \$10,772 million
 - Actuarial Value of assets is \$9,211 million
 - Unfunded Actuarial Liability is \$1,561 million
 - AVA Funded ratio of 86%
 - MVA Funded ratio of 85%

The following employer contribution rates for FY21 were presented to the Board by Cheiron Inc.:

State Employees'	12.33%
State Judicial	17.83%
State Police	24.83%
County/Municipal General	7.06%
County/Municipal P & F	16.59%
Volunteer Fire	\$444.47 per member
Diamond State Port (closed in FY19)	
	FY20 \$310,000
	FY21 \$208,600

Margaret Tempkin, consultant with Cheiron, Inc. presented the Trustees DPERS' Fiscal 2019 Actuarial Valuation for Other Post-Employment Benefits. The following topics were discussed:

- OPEB changes since 2018 valuation
- Actuarial Liability vs Market Value of Assets
- GASB overview
- Funding policy

MOTION made by A. Agra and seconded by T. Shaw to approve the recommendation for the Volunteer Firemen's Fund of closing the current 15 year amortization period for existing unfunded liabilities as of June 30, 2019 and using the 15-year period for newly arising gains and losses.

MOTION ADOPTED UNANIMOUSLY

MOTION made by N. Shevock and seconded by H. Stafford to adopt the FY21 employer contribution rates presented to the Board by Cheiron, Inc.

MOTION ADOPTED UNANIMOUSLY

Positions

D. Craik reported on the current vacant positions. A Sr. HR Technician position is in the process of being reclassified to a higher level position. A request to fill for the HR Specialist I positions has been submitted. Casual/Seasonal Sr. HR Technician interviews were completed and the request to hire has been submitted. Additionally, interviews have been scheduled for the Pension Administrator position. D. Craik announced the retiring of Robert Eckstine, IT supervisor.

2020 Appeal Schedule

D. Craik requested that everyone pick two dates for appeal hearings in 2020. A. Agra agreed to fill the second slot for the December 11, 2019 appeal hearing.

Office Space in Wilmington

D. Craik reported that the office space on 3 Mill Road will not be renewed. Hopefully the new space will be ready by January 1st.

MOTION made by A. Agra and seconded by T. Shaw to approve the application for the Bowers Fire Co. to join the County/Municipal General Employees' Pension Plan effective January 1, 2020 for the paid employees of the company.

MOTION ADOPTED UNANIMOUSLY

7. DEPUTY ATTORNEY GENERAL REPORT

A. Johnson reported that she had updated the Board Appeal Procedures. The updates clarify the pre-hearing process, including describing the procedure to conduct a pre-hear teleconference in order to identify issues, witnesses and representation by counsel (if any.)

MOTION made by T. Shaw and seconded by H. Stafford to approve the Appeal procedures.

MOTION ADOPTED UNANIMOUSLY

8. INVESTMENT COMMITTEE REPORT

Mr. Gooderham reported that global equity markets moved higher in September as US-China trade tensions appeared to ease and global central banks announced more accommodative monetary policies to help offset concerns about an economic slowdown. In contrast to recent periods, international equity markets provided higher returns for the month. US equities as measured by the broad Russell 3000 index gained 1.8%, while the MSCI EAFE index was up 2.9% and the MSCI Emerging Markets index was up 1.9%. In fixed income markets, better than expected economic data helped interest rates on most Treasury bonds rebound from recent declines (bond prices fell) and credit spreads narrowed. The Bloomberg Barclays Universal index fell 0.4%, while the more credit-sensitive Bloomberg Barclays High Yield index was up 0.4%.

Mr. Gooderham reported that DPERS Fund assets are estimated to be \$10,721.6 million at September 30, 2019, representing a net increase of \$31.3 million during the month. Estimated returns through September 30, 2019 are as follows:

	Month Ended 09-30-19	Quarter Ended 09-30-19	Calendar YTD 09-30-19	1 Year Ended 09-30-19
Total Fund	0.6	1.2	9.2	4.2
DPERS Policy Benchmark**	1.0	1.0	13.6	5.3
S&P 500 Index	1.9	1.7	20.6	4.3

** Benchmark mix of: 38% Russell 3000 Index, 20% MSCI ACWI ex US(Net), 39.0% BB Universal Bond Index, 3% T-bills
 Prior to 7/1/19 - 38% Russell 3000 Index, 20% MSCI ACWI ex US(Net), 40.0% BB Universal Bond Index, 2% T-bills

Prior to 7/1/18 - 38% Russell 3000 Index, 20% MSCI ACWI ex US(Net), 38.5% BB Universal Bond Index, 1.5% BB TIPS Index, 2% T-bills

Mr. Gooderham reported that the Investment Committee had met twice since the September Board meeting. He reported that, at its October 8th meeting, the Investment Committee reviewed and discussed:

- A presentation from Orbis on their International Equity Strategy
- Private Investment Recommendations
 - Accel India VI
 - Peppertree Capital Management
 - Portfolio Impact
- A discussion on Exception Managers
- An ESG Policy Update discussion

At the October 8th meeting, the Investment Committee approved under its authority, with at least two Board members voting in favor:

- A recommendation to commit up to \$15 million to Accel India VI, subject to legal review of documents
- A recommendation to commit up to \$15 million to Peppertree Capital Management Fund VIII, subject to legal review of documents

At its October 22nd meeting, Mr. Gooderham advised that the Investment Committee reviewed and discussed:

- A Market Outlook and Business Cycle Analysis
- A presentation on Negative Interest Rates
- A presentation on Portfolio Implications of Cycle Analysis & Asset Allocation

He also reported that the Investment Committee at its October 22nd meeting approved under its authority, with at least two Board members voting in favor:

- A recommendation to move \$100 million from each of the Loomis Sayles and T. RowePrice Floating Rate accounts to the Blackrock Debt Index (Aggregate) fund.

Mr. Yablonovitz turned to a presentation reviewing the current business cycle and U.S. market conditions, noting that classic “end of cycle” signals are growing and recession, while edging closer, does not appear imminent. Acknowledging it is very difficult to know precisely where the economy is within the business cycle, he discussed the cycle diagram presented in the materials. He noted the “pie slice” shape in the circular cycle diagram, which indicates where Windmark estimates the U.S. economy is currently positioned within the economic cycle. The current range includes the small possibility of a recession already being underway, but a much higher likelihood that we remain in the “Late Cycle”. He noted that economic forces can push the economy backwards and forwards within the cycle, noting that the trade war and international economic conditions had been weighing on the outlook, while significant monetary stimulus had largely pushed the economy back, away from recession. He also noted that we are currently in the longest economic expansion on record, with low

inflation readings stemming from technology, globalization, demographics and high debt levels, leading to the extended use of monetary policy to extend the cycle.

Mr. Yablonovitz reviewed a series of “recession-watch” indicators, noting that they were close to warning of an impending recession towards the end of 2018, but the Federal Reserve’s reversal to a stimulative monetary policy in early 2019 boosted economic conditions and stock and bond markets.

Mr. Yablonovitz also noted that the shift in U.S. one year interest rates from above inflation to below inflation in 2019 has been highly supportive of economic activity and asset prices. On the other hand, he noted that leading economic indicators are close to going negative. He described additional indicators, including tight labor markets and modest wage growth, deteriorating consumer sentiment and the fact that U.S. corporate debt as a percent of GDP has risen to an all-time high. He also noted that rising U.S. earnings continue to outpace weaker earnings elsewhere in the world.

Mr. Yablonovitz noted that while some indicators were flashing worrisome signals, a number of things could also go well for the economy, including additional monetary or fiscal stimulus, an easing or resolution of the trade war, or additional technological breakthroughs. He concluded by saying that, if a recession were to take place, very low levels of interest rates leave significantly less room than in the past for the Federal Reserve to provide economic stimulus.

Mr. Gooderham then briefly described the Investment Committee’s educational review of negative interest rates at the October 22nd meeting. He described negative rates as borrowers being paid to borrow by the lender or the lender having to pay the borrower for the privilege of lending them money. He said that negative interest rates have existed in Europe and Japan for several years as an aggressive, and arguably desperate, monetary policy tool. In the U.S., quantitative easing (Fed purchase of government and agency debt) was sufficient to turn the market around without resorting to negative rates. The European Central Bank and the Bank of Japan, however, let policy rates go negative due to weak economic growth conditions, characterized by challenged banking systems and poor demographics. He said that negative rates upend the time value of money and introduce numerous distortions. If money in the future is worth more, should companies postpone accounts receivable collection, or should we value companies with more debt at a higher level?

Mr. Gooderham said that negative interest rates have not met the Central Banks’ objectives. While borrowing costs are clearly lower, lending growth data is mixed, while there have been meaningful distortions and costs. Banks, savers, pension funds and insurance companies have all suffered while, instead of encouraging consumption, evidence shows that savers have increased their savings, rather than spending, to make up for lost interest income. In addition, the lower cost of capital has led to investments in more loss-making companies and rapid technological advances, which has contributed to deflation, not the inflation sought by central bankers.

Mr. Gooderham said that, despite their problems, negative rates in the US are a possible response to future economic weakness given the current low starting point for any future rate decreases. He noted that, as Central Banks have gradually realized the limitations of negative rates, the concept of Modern Monetary Theory (MMT), which promotes fiscal policy over monetary policy, has gained wider support. He said MMT has limitations, as history shows democratic governments find it difficult to pull back on fiscal stimulus when they should.

The next meeting of the Investment Committee is scheduled for Tuesday, November 19th, 2019.

MOTION made by A. Agra and seconded by H. Stafford to enter into Executive Session to consider pension personnel matters, and confidential medical records, legal matters, sensitive commercial trade secrets and confidential financial information.

MOTION ADOPTED UNANIMOUSLY

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

9. **PENDING ITEMS**

There were no pending items.

10. **NEW BUSINESS**

There was no new business.

11. **ADJOURNMENT**

At 11:44 a.m., there being no further business, **MOTION** was made by A. Agra and seconded by H. Stafford.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

David C. Craik

Pension Administrator

Suzanne Grant, Chair
Board of Pension Trustees