

STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
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BOARD OF PENSION TRUSTEES
MEETING MINUTES OF MARCH 29, 2019

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

Trustees Present

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

Trustees Absent

Mike Jackson

Others Present

Dave Craik, Pension Office
Joanna Adams, Pension Office
Terri Timmons, Pension Office
Ann Marie Johnson, Deputy Attorney General
Josh Hitchens, Pension Office
Jamie Mayan, Pension Office
Khairat Makanjuola, Pension Office
Jeff Johnson, Pension Office
Stephenie Tatman, Pension Office
Rob Gooderham, Windmark
Sarah Williams, Windmark
Joe Malloy, Pension Advisory Council
Charlotte Lister, Pension Advisory Council
Paul Roth, TBV (via phone)

1. **OPENING COMMENTS**

S. Grant welcomed everyone to the meeting.

2. **APPROVAL OF THE MINUTES**

The Trustees reviewed the Public Minutes of the February 22, 2019 meeting.

MOTION made by A. Agra and seconded by T. Shaw to approve the Public Minutes of the February 29, 2019 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

The Trustees reviewed the Executive Minutes of the February 22, 2019 meeting.

MOTION made by N. Shevock and seconded by A. Agra to approve the Executive Minutes, as amended, of the February 22, 2019 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

3. **PENSION AUDIT REPORT**

D. Craik stated that the next Audit Committee meeting would be held on May 3rd, which will be the entrance audit. He also stated that there has been no activity on the fraud hotline.

4. **GOVERNANCE COMMITTEE**

Nothing to report.

5. **PENSION ADVISORY COUNCIL REPORT**

Nothing to report.

6. **PENSION ADMINISTRATOR REPORT**

Risk Management

Nothing to report.

Positions

D. Craik stated that we have filled J. McCartney's former position with an internal candidate, Robin Hartnett-Sterner. We have posted for R. Hartnett-Sterner's former position.

Pension Activities

We have three Pre-retirement Workshops scheduled in April where we expect to have between 80 – 100 attendees.

Reporting Schedule

Nothing has changed. D. Craik will meet with R. Gooderham to review flow charts.

Best Practices

There have been no changes.

Legislation

HB99 was introduced on March 28th. This Bill will change the calculation to benefits effective July 1, 2019, for correction officers and specified peace officers.

Governance Bill

Has not been introduced yet but D. Craik expects it to be introduced within the next two weeks.

City of Wilmington

D. Craik reported that the City of Wilmington should be sending us a file each month for payroll and human resource changes. Last April they stopped sending us files, however each month we do receive money but we do not know how to apply it. Mr. Craik stated he has reached out to the City and have told them there will be no further action until they are caught up with sending us their files. This includes their Comprehensive Annual Statements. Mr. Craik received calls from the City Treasurer and Mayor. He will be asking for help from M. Jackson in reference to this matter. A penalty was built in to help avoid this issue. By June 30th, the actuarial file is cut and if the City has not caught up this could cause major issues with the actuarial information.

7. DEPUTY ATTORNEY GENERAL REPORT

Ms. Johnson attended the National Association of Public Pension Attorneys (NAPPA) Winter Conference. The following were the key takeaways:

Investments:

- Fiduciary Consideration of Fund Terms in Manager Selection.
 - Top Private Equity managers are oversubscribed, and GP representation has become concentrated in one or two major law firms. Sovereign Investors are making oversized investments, and have a lower bar for fiduciary requirements in deals. These dynamics are reducing Pension Fund leverage in term setting.
- Fiduciary Duty of Private Fund Managers
 - SEC regulation of disclosure by Fund Managers has been a mixed blessing. LPA's have increased in specificity (perhaps good) but have also created the need for greater diligence compliance by systems (perhaps not so good).
- Life Cycles of the Side Letter-From Forms to Most Favored Nations (MFN).
 - Trends in marketplace are limiting the scope of MFN elections. Importance of tracking side letter compliance.

Fiduciary and Plan Governance

- Governance and Fiduciary Implications of Delegation and the Proper Role of the Board.
 - No "one size fits all" solution. Most systems delegate, and in some circumstances, delegation of certain roles and duties would be required under current Trust law standards.
- The Fiduciary Implications of investment negotiations and decision-making.
 - Many systems have an internal tension between business staff and legal relating to key terms, and other governance issues. Best to manage these issues ahead of time, ideally with trustee and investment staff consensus and education.

Benefits

- Show Me the Money: Preventing and Recouping Overpayments.
 - Best offense is a good defense – e.g. preventing the overpayment in the first place. Statute of limitations on collections.
- Further Review-Reexamination, Recertification, and Continuation of Disability Benefits.
 - Review and update various provisions is necessary.
- Manifest Injustice-Relief from Strict Plan Interpretation.
 - DPERS does not have authority to waive plan provisions.

8. INVESTMENT COMMITTEE REPORT

Mr. Gooderham reported that the global equity market rally that began in late 2018 continued through February. Signs of progress in the trade dispute between the US and China and expectations that the Federal Reserve will take a more patient approach to monetary policy have helped stocks march higher so far in 2019. As in January, US equities outperformed as the Russell 3000 index gained 3.5%. Developed international stocks as measured by the MSCI EAFE index were up 2.5%, while emerging markets stocks managed a small gain of 0.2%, as measured by the MSCI Emerging Markets index. In fixed income markets, yields moved modestly higher (prices lower) and credit spreads narrowed. For the month, the Bloomberg Barclays Universal bond index was down 0.1%, the Bloomberg Barclays TIPS index was flat, while the riskier Bloomberg Barclays High Yield index was up 1.7%.

Mr. Gooderham reported that DPERS Fund assets are estimated to be \$10,374.8 million at February 28, 2019, representing a net increase of \$6.7 million during the month. Estimated returns through February 28, 2019 are as follows:

<u>Fund</u>	<u>Feb-19</u>	<u>Fiscal Year To Date</u>	<u>12-Month</u>
Total Fund	0.3%	3.1%	3.9%
S & P 500 Index	3.2%	3.8%	4.7%
60/35/5*	1.9%	3.6%	4.3%
Delaware Benchmark**	1.8%	2.2%	2.2%

*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 its March 12th meeting, the Investment Committee reviewed and discussed:

- A review of Fourth Quarter Performance Highlights
- An International Small Cap Asset Class Analysis
- A presentation by Highclere on their Smaller Companies Equity Fund
- An asset allocation recommendation for Highclere
- An update on the Private Investment Strategy
- A recommendation for Drive Capital
- A recommendation concerning Centerbridge Credit Partners

He also reported that the Investment Committee had approved, under the authority granted to them by the Board, amendments to the limited partnership agreement for Advanced Technology Ventures VIII.

The next meeting of the Committee is scheduled for Tuesday, April 8th.

MOTION made by N. Shevock 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

MOTION made by N. Shevock and seconded by T. Shaw to approve the liquidation, at the end of June 2019, of the redeemable portion of the Centerbridge Credit Partners investment (approximately \$5 million) with proceeds to be allocated to the Cash account.

MOTION ADOPTED UNANIMOUSLY

MOTION made by N. Shevock and seconded by H. Foster to approve the investment of up to \$100 million in Highclere International Investors' International Smaller Companies Fund pursuant to available capacity and subject to legal review of the documents. Funds shall be sourced from the Sanderson account to the extent funds are available, using cash as an alternative to avoid any anti-dilution fees.

MOTION ADOPTED UNANIMOUSLY

MOTION made by H. Foster and seconded by T. Shaw to approve commitments of up to \$15 million to Drive Capital Fund III and up to \$35 million in Overdrive Fund I, 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 11:31 a.m., there being no further business, MOTION was made by N. Shevock and seconded by H. Foster to adjourn the meeting.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

David C. Craik
Pension Administrator

Suzanne Grant, Chair
Board of Pension Trustees