

STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
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BOARD OF PENSION TRUSTEES
MEETING MINUTES OF JULY 26, 2019

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

Trustees Present

Suzanne Grant (via phone)
Nancy Shevock
Mike Jackson
Art Agra (via phone)
Tom Shaw
Harold Stafford

Trustees Absent

Rick Geisenberger

Others Present

Dave Craik, Pension Office
Joanna Adams, Pension Office
Terri Timmons, Pension Office
Josh Hitchens, Pension Office
Khariat Makanjuola, Pension Office
Jeff Johnson, Pension Office
Jennifer Dilworth, Pension Office
Stephenie Tatman, Pension Office
Garry Musto, Windmark
Joe Malloy, Pension Advisory Council
Charlotte Lister, Pension Advisory Council

1. OPENING COMMENTS

S. Grant thanked D. Craik for his service to the State of Delaware and to the Office of Pensions.

2. APPROVAL OF THE MINUTES

The Trustees reviewed the Public Minutes of the June 28, 2019 meeting.

MOTION made by N. Shevock and seconded by H. Stafford to approve the Public Minutes of the June 28, 2019 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

The Trustees reviewed the Executive Minutes of the June 28, 2019 meeting.

MOTION made by H. Stafford and seconded by T. Shaw to approve the Executive Minutes, as amended, of the June 28, 2019 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

3. PENSION AUDIT REPORT

D. Craik reported that the Audit Committee met on July 19th.

S. Tatman stated that the 2020 Fiscal Year external Audit timeline had been completed. An RFP for external audit firm will be placed out for bid, after legal review. She reported that we are hoping to have a firm in place by next April. There will be a team in place to review the RFP responses.

Ms. Tatman also reported that she will be looking at the Charter for the Audit Committee and will purpose any changes.

Fraud

S. Tatman reported that there have been no calls or comments regarding any type of fraud within the system.

D. Craik stated that our audit firm BDO was also present at the Audit Committee meeting and stated everything is moving forward with the FY19 financial audit and have found nothing unusual so far.

KPMG's contract as Internal Auditor will be expiring. The Audit Committee discussed and recommended to extend the contract for two additional years.

The next meeting of the Audit Committee will be held on October 18th.

4. GOVERNANCE COMMITTEE

Nothing to report.

5. PENSION ADVISORY COUNCIL REPORT

J. Malloy reported that the Council is working on long-term goals to be completed before the next budget process begins.

6. PENSION ADMINISTRATOR REPORT

Positions

Mr. Craik reported that we have two positions on hold, one of which is a re-classification. We recently hired an H.R. Specialist I to fill one of our vacancies.

Activities

Mr. Craik stated that the amount of FY18 healthcare changes were higher than FY19. The average phone calls per month is much higher for FY19, and the Group Counseling attendees was higher than last year.

Medical cases for the rolling 12 months is 21 cases, which 3 of those were new this past quarter.

Office Activities

D. Craik reported that the Office of Pensions will have upcoming employer workshops for payroll and pension application training.

Retiree Newsletter will be mailed to retirees in their July pay.

Reporting schedule has been updated. Funston Advisory Services, who performed the Board's Self-Assessment project, will be at the September Board meeting to give their final presentation.

Best Practices

- Items in blue have been updated and are being worked on. The Self-Assessment will be completed on 9/27/19
- Items in red were the Risk Manager duties

Legislation – SB76 governance bill was voted on and passed the Senate and the House. It has now been signed by the Governor.

7. DEPUTY ATTORNEY GENERAL REPORT

Ms. Johnson attended the Summer Conference for the National Association of Public Pension Attorneys (NAPPA). The following items were presented during the conference:

Investments

- Navigating Secondary Transactions: Market Overview, Current Trends, and the Legal and Business Process
 - Key Takeaways: DPERS has not utilized the secondary market
- Removing General Partners: Untying the Gordian Knot
 - Key Takeaways: Expensive, time consuming and difficult to achieve. Drafting of initial deal documents is key. Equities cut both ways, however, as sometimes there is no agreement on the utility of removing a GP, especially at the end of a deal. Choose your GP wisely in the first place
- San Francisco Employees' Retirement System ESG Platform Overview
 - Key Takeaways: DPERS has adopted an ESG policy
- Best Practices in Hiring and Monitoring Investment Counsel-Discussion of robust Service Provider Selection Policy of Colorado PERS and CALSTRS
 - Key Takeaways: Although DPERS does not invest "in-house" and delegates the diligence practice to Windmark, best practices are still relevant. The policies provide interesting insight on compliance protocols

Fiduciary and Plan Governance

- Ethical Dilemmas for General Counsel – Ethics training for attorneys
 - Key Takeaways: It is important to make distinctions within an organization of when you can give advice, and when certain matters pose conflicts for the attorney. Consider separating the "fiduciary" role from the "operational" role, so as to avoid conflicts in the appellate process
- Role of the Dissenting Board Member
 - Key Takeaway: DPERS is fortunate to have professional and responsible Board, and Committee members who do not engage in breaches of duty or decorum
- The Anatomy of Fiduciary Duty Litigation
 - Key Takeaways: Keep plan's assumed return rate aligned with its actual investment history; be transparent about the Plan's financial challenges and steps to address them

Benefits

- Firefighters, Cancer and the Elusive Concept of Causation for Disability Benefits
 - Key Takeaways: DPERS may want to consider developing protocols for the determination of cancer death and illness disability claims for public safety officials

General System Management

- What Did You Do With My Money?
 - Key Takeaways: Delaware does not have a pension forfeiture law although periodically, a bill authorizing one is introduced. Implementation of such laws is difficult, and there are considerable due process and 8th Amendment limitations

- Working after Retirement: What is it good for?
 - Key Takeaways: An issue for DPERS, especially for teachers, SEPP currently allows limited return to work after a 6 month break in service to evidence intent to retire
- The Evolution of Off-Shore Securities Litigation. Update of International Securities Litigation cases
 - Key Takeaways: DPERS has initiated its bid for securities litigation monitoring counsel
- The Role of System Counsel in Managing Electronic Data
 - Key Takeaways: In addition to managing and overseeing policies, negotiate contract terms, insurance requirements and indemnification appropriate, explore cyber liability insurance (while being attentive to impact on sovereign immunity. Treat data as an asset, with real measurable value
- Discussion of recent New York City litigation relating to securities litigation monitors and use of system information.
 - Key Takeaways: may impact RFP for outside counsel – will have to both inquire and draft to insure confidentiality of information

8. INVESTMENT COMMITTEE REPORT

Mr. Musto stated that there was reversing weakness in May, global equity markets bounced back in June and continued their 2019 rally as global central banks signaled a more accommodative approach to monetary policies. U.S. equities, as measured by the S&P 500 index, rallied 7.0% for the month and hit a new all-time high. International equity performance lagged U.S. equities as the MSCI EAFE index advanced 5.9% and the MSCI Emerging Markets index was up 6.2%. In fixed income markets, yields moved lower (prices higher) and credit spreads narrowed, resulting in a 1.4% gain for the Bloomberg Barclays Universal bond index, while the riskier Bloomberg Barclays High Yield index was up 2.3%.

Mr. Musto also reported that DPERS Fund assets are estimated to be \$10,664.2 million at June 30, 2019, representing a net increase of \$279.6 million during the month. Estimated returns through June 30, 2019 are as follows:

<u>Fund</u>	<u>Jun-19</u>	<u>Fiscal Year To Date</u>	<u>12-Month</u>
Total Fund	3.0%	7.1%	7.1%
S & P 500 Index	7.0%	10.4%	10.4%
60/35/5*	4.8%	9.8%	9.8%
Delaware Benchmark**	4.4%	7.3%	7.3%

*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

At the July 16th Investment Committee meeting, Mr. Musto stated the following items were discussed:

- A review of Fiscal Year performance
- The Private Investments First Quarter 2019 Review
- A market outlook presentation on Growth/Value and Fixed Income
- A recommendation for Northern Trust Custody Renewal
- A risk reduction recommendation

Items that were approved under the Investment Committee's authority were:

- An amendment to the Limited Partnership Agreement for Riverstone Global Energy & Power IV.
- A recommendation to move \$100 million from the Wellington Dividend Growth account to the BlackRock Aggregate Bond index fund.

The Investment Committee voted on the following recommendations that the Board approve the following:

- The custody renewal for Northern Trust, subject to approval of Counsel.
- DPERS retain FX Transparency to conduct an FX Execution analysis in 2020, subject to fee/legal negotiations.

The next meeting of the Investment Committee is scheduled for Tuesday, August 20, 2019.

MOTION made by N. Shevock 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.

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 H. Stafford to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

MOTION made by N. Shevock and seconded by H. Stafford to approve the recommendation of the Audit Committee to extend the KPMG Internal Audit Contract for two additional years.

MOTION ADOPTED UNANIMOUSLY

MOTION made by H. Stafford and seconded by M. Jackson to approve the recommendation of the Audit Committee for the Internal Audit plan for the next year.

MOTION ADOPTED UNANIMOUSLY

MOTION made by N. Shevock and seconded by H. Stafford to approve the recommendation of the Investment Committee for the extension of the Custodian Bank agreement with Northern Trust, subject to legal review.

MOTION ADOPTED UNANIMOUSLY

MOTION made by H. Stafford and seconded by T. Shaw to approve the recommendation of the Investment Committee to retain FX Transparency to conduct a Foreign Exchange transaction execution analysis in 2020, subject to fee/legal negotiations.

MOTION ADOPTED UNANIMOUSLY

9. **PENDING ITEMS**

There were no pending items.

10. **NEW BUSINESS**

There was no new business.

11. **ADJOURNMENT**

At 10:21 p.m., there being no further business, MOTION was made by N. Shevock and seconded by H. Stafford.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

David C. Craik
Pension Administrator

Tom Shaw, Acting Chair
Board of Pension Trustees