

STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
MCARDLE BUILDING
860 SILVER LAKE BLVD., SUITE 1
DOVER, DE 19904-2402

When Calling Long Distance
Toll Free Number 1-800-722-7300
E-mail: pensionoffice@state.de.us

Telephone (302) 739-4208
FAX # (302) 739-6129
www.delawarepensions.com

BOARD OF PENSION TRUSTEES
MEETING MINUTES OF SEPTEMBER 27, 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
Randy Miller, Funston Advisory Services
Rob Gooderham, Windmark
Garry Musto, Windmark
Jim Testerman, Pension Advisory Council
Charlotte Lister, Pension Advisory Council

1. OPENING COMMENTS

S. Grant thanked H. Stafford for joining the Audit Committee.

S. Grant also stated December Board Meeting has been moved to December 6th at Greenville Country Club time is still to be determined.

2. APPROVAL OF THE MINUTES

The Trustees reviewed the Public Minutes of the July 26, 2019 meeting.

MOTION made by N. Shevock and seconded by H. Stafford to approve the Public Minutes of the July 26, 2019 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

The Trustees reviewed the Executive Minutes of the July 26, 2019 meeting.

MOTION made by T. Shaw and seconded by A. Agra to approve the Executive Minutes, as amended, of the July 26, 2019 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

3. GOVERNANCE COMMITTEE

Board Self-Assessment

D. Craik introduced Randy Miller from Funston Advisory Services. R. Miller explained the board assessment process how they received the information and how that information was processed. R. Miller shared some preliminary conclusions from their observations.

- Governance and Decision-Making Authority - The current legislative / statutory framework governing DPERS was introduced in the mid-1970s and, although there have been updates, the fundamental governance structure remains the same.
- Succession planning- Ability to continue to attract and retain qualified DPERS staff within the existing state classifications and compensation ranges. This is particularly a concern if DPERS is to attract investment personnel to better support the Board and Investment Committee.
- Risk Intelligence / Risk Management- Defining the DPERS objectives and approach for risk management.
 - There has been a lack of clarity about the respective roles and responsibilities of the risk advisor, investment advisor and the Investment Committee.

- Risk information from the Risk Advisor has had questionable value added in the past.
- Several trustees mentioned that the role of the former Risk Advisor will be transitioned to the Internal Auditor but there is no explicit plan to do so.
- DPERS lacks a comprehensive enterprise risk management plan, including addressing, for example, cybersecurity, business continuity, operational risk, etc.
- DPERS Business Model - DPERS is the only system of its size in the nation that has no internal investment staff. This requires greater involvement by the Board in investment details and results in a very heavy time commitment by all and especially Investment Committee members. The current model has served the organization very well, but it is time to consider alternatives. Resistance to change is to be expected and a strong business case will need to be developed.
- Two-Way Communications - Communications in general, but in particular, from the Board to each committee needs improvement.
 - Self-Evaluation / Continuing Education - Lack of Board and committee self-evaluations. Unstructured Board continuing education program; inconsistent/limited continuing education for committee members.

4. PENSION AUDIT REPORT

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

K. Makanjoula reported that the external audit with BDO is doing well. The Internal Audit section is reviewing succession planning for the Board, Committees and staff positions. An exit interview has been scheduled by Auditor of Accounts on October 9th. BDO exit interview is scheduled for the November 15th Audit Committee Meeting.

5. PENSION ADVISORY COUNCIL REPORT

J. Testerman reported the Pension Advisory Council is teaming up with DSEA and DRSPA to reestablish the Post Retirement Increase process.

6. PENSION ADMINISTRATOR REPORT

Positions

D. Craik reported that we have five positions, one of which is a re-classification. Interviews for two H.R. Specialist I's have been scheduled and a request to fill for the Casual/Seasonal Senior H.R Technician position.

Activities

D. Craik reported on September 17th and October 25th there will be pre-retirement workshops.

Best Practices

D. Craik reported that yellow items have moved from Risk Management to Internal Audit.

7. DEPUTY ATTORNEY GENERAL REPORT

A. Johnson reported she reviewed and updated the Rules & Regulations for the State Employees' Pension Plan with D. Craik and J. Adams. A. Johnson also reviewed the regulatory update process with the board. The regulations need to be updated and reorganized for State Police regarding the disability section.

8. INVESTMENT COMMITTEE REPORT

Mr. Gooderham reported that in the first two months of the fiscal year, global stock markets posted modest declines, while fixed income markets were higher as interest rates continued their trend lower. Escalating trade tensions weighed on sentiment over the period as the US announced additional tariffs on Chinese imports, and China responded with retaliatory tariff hikes on US goods. While the US economy has appeared relatively immune to the ongoing trade dispute compared to most regions, recent data shows that domestic manufacturing activity has also slowed. Amid this backdrop, US equities as measured by the broad Russell 3000 index were lower by 0.6%. International equities fared worse as the MSCI EAFE index declined 3.8% and the MSCI Emerging Markets index fell 6.0%. Concerns related to the trade war and slowing global growth, along with a shift towards easier monetary policy, led interest rates to fall. Over the period, the Bloomberg Barclays Universal bond index gained 2.6%, while the riskier Bloomberg Barclays High Yield index was up 1.0%.

Mr. Gooderham reported that DPERS Fund assets are estimated to be \$10,690.2 million at August 31, 2019, representing a net increase of \$26 million during July and August. Estimated returns for July and various periods ending August 31, 2019 are as follows:

	Month Ended 07-31-19	Month Ended 08-31-19	Fiscal YTD 08-31-19	Calendar YTD 08-31-19	1 Year Ended 08-31-19
Total Fund	0.6	-0.1	0.6	8.5	3.6
DPERS Policy Benchmark**	0.4	-0.5	0.0	12.5	4.2
S&P 500 Index	1.4	-1.6	-0.2	18.3	2.9

** Benchmark mix of 38% Russell 3000 Index, 20% MSCI ACWI ex US (Net), 40.0% Bloomberg U.S. Universal Bond Index, 2% T-bills.

Mr. Gooderham reported that the Investment Committee had met three times since the July Board meeting. He reported that, at its August 20th meeting, the Investment Committee reviewed and 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

At its September 10th meeting, Mr. Gooderham advised that the Investment Committee reviewed and discussed:

- A presentation from Northern Trust
- The annual review of Northern Trust
- A presentation from Double Line on their Total Return strategy
- Windmark Investment Partners annual services review

He also reported that the Investment Committee at its September 10th meeting approved under its authority:

- An amendment to the Limited Partnership Agreement for the Viking Global Opportunities Fund.

At its September 24th meeting, Mr. Gooderham advised that the Investment Committee reviewed and discussed:

- A presentation from GQG Partners on their Global Equity Fund
- An asset allocation recommendation
- A presentation on Private Investment Planning
- The annual Commission report
- The annual Proxy Voting report
- The draft CAFR Investment Section

He also reported that the following was approved under the Investment Committee's authority:

- An amendment to the Limited Partnership Agreement for Centerbridge Credit Partners.
- A recommendation to invest \$200 million in GQG Partners Global Equity funded from the liquidation and termination of Sanderson International equity fund, with any difference between GQG funding and the Sanderson liquidation being allocated to or from the Cash Account.

- A recommendation to move \$200 million from the Cash Account to the Blackrock Aggregate Bond index fund.

Recommendation for Board Approval

Mr. Gooderham noted there was one recommendation from the Investment Committee to the Board regarding an adjustment to the Delaware benchmark composition. Specifically, at its August 20th meeting:

- The Investment Committee had voted to recommend that the Board approve a 1% shift in the Delaware Benchmark from bonds to Treasury-Bills, changing the allocations from 40% Bloomberg U.S. Universal Bond Index / 2% 91-day Treasury-Bills to 39% Bloomberg U.S. Universal Bond Index / 3% 91-day Treasury-Bills, with effect from July 1, 2019.

The next meeting of the Investment Committee is scheduled for Tuesday, October 8th, 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 A. Agra to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

MOTION made by T. Shaw and seconded by A. Agra to approve the recommendation of the Investment Committee had voted to recommend that the Board approve a 1% shift in the Delaware Benchmark from bonds to Treasury-Bills, changing the allocations from 40% Bloomberg U.S. Universal Bond Index / 2% 91-day Treasury-Bills to 39% Bloomberg U.S. Universal Bond Index / 3% 91-day Treasury-Bills, with effect from July 1, 2019.

MOTION ADOPTED UNANIMOUSLY

9. **PENDING ITEMS**

There were no pending items.

10. **NEW BUSINESS**

There was no new business.

11. **ADJOURNMENT**

At 11:11 a.m., there being no further business,
MOTION was made by N. Shevock and
seconded by A. Agra.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

David C. Craik
Pension Administrator

Suzanne Grant, Chair
Board of Pension Trustees