

STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
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BOARD OF PENSION TRUSTEES
MEETING OF DECEMBER 14, 2001

The meeting of the Board of Pension Trustees was called to order by D. Stratton at 9:00 a.m. in the Delaware Conference Room of the McArdle Building.

Trustees Present

A. Dale Stratton
Robert Allen
Jan M. King
Lisa Blunt-Bradley
Nancy Shevock

Trustees Absent

Keith Dorman
David Singleton

Others Present

Charlotte Lister, Pension Advisory Council
Fiona Liston, Milliman USA
David C. Craik, Pension Office
Carolyn J. Williams, Pension Office
Calvin L. Scott, Jr., DAG
Christy L. Ulmer, Pension Office
Alice L. Simon, Pension Office

Sue Conk, Pension Office
Dorothy Clemente, Pension Office
Darlene Arena, Pension Office
Charles Riegel, M.D., Medical Committee
Robert W. Frelick, M.D., Medical Committee
Vincent DelDuca, M.D., Medical Committee
Phyllis M. Smoyer, M.D., Medical Committee
Albert Gelb, M. D., Medical Committee
William Shellenberger, M.D., Med. Committee

1. OPENING COMMENTS

The meeting opened with attendee introductions.

The Board acknowledged the accomplishments of Dr. Gliwa and extended its sympathy to members of the Medical Committee.

D. Stratton read a letter from Tom Allen of the Governmental Accounting Standards Board (GASB). The letter acknowledged DPERS for its early implementation of the new financial statements in accordance with GASB Statement 34 that were included in the DPERS 30th Annual CAFR. DPERS was commended for being among the first entities to comply with GASBY 34 and recognized Alice Simon, Kathy Kunkle and Ernst & Young for their expertise and assistance to the DPERS. D. Stratton congratulated Ms. Simon, Ms. Kunkle and the Pension Office for this achievement.

D. Stratton invited attendees to stay for the holiday luncheon following the meeting. Everyone expressed his or her appreciation to Dale for hosting this annual event.

2. APPROVAL OF THE MINUTES

The Trustees reviewed the minutes of the October 26, 2001 meeting.

MOTION was made by R. Allen and seconded by J. King to approve the minutes of the Board of Pension Trustees meeting.

MOTION ADOPTED UNANIMOUSLY

3. MEDICAL REPORT

D. Craik recommended that Albert Gelb, M. D. be appointed to serve on the Medical Committee. .

MOTION was made by J. King and seconded by R. Allen to approved the appointment of Albert Gelb, M. D. to the Medical Committee.

MOTION ADOPTED UNANIMOUSLY

D. Stratton and members of the Pension Office thanked the Medical Committee members for their time and professional deliberations regarding disability pension cases.

Dr. Frelick expressed the Medical Committee's sadness regarding the death of Dr. Gliwa who served on the Medical Committee from 1994 - 2001. The Medical Committee agreed that they miss his contributions and friendship. The Committee thanked Dorothy Clemente for her assistance and the Board applauded her dedication.

The Medical Committee repeated its concerns regarding the State not having a short-term disability policy that would allow employees to return to work on limited duty. The Medical Committee questioned why the State does not have a mechanism within the system to encourage employees to return to work instead of remaining on a disability pension. It is the opinion of the Committee that employees who refuse treatment, such a vocational rehabilitation, should not receive a benefit. Sue Conk contributed that we should be careful not to mandate rehabilitation for all cases since many disability applications are for employees who have terminal illnesses. Lisa Blunt-Bradley addressed the Committee's concerns by informing that in January a "Return to Work Taskforce" would be researching these concerns. The taskforce will be looking at private companies to see how they address these issues. She affirmed her commitment to researching answers to questions and concerns raised by the Committee. She stated that legislation would be required to address some of their concerns. The Medical Committee was encouraged by Lisa Blunt-Bradley and expressed appreciation for her commitment to research these issues.

D. Stratton thanked the Medical Committee for being the "conscience" of the Board and thanked Committee members for their time and dedication. Members of the Medical Committee expressed their appreciation for granting them the opportunity to express their concerns.

4. DEPUTY ATTORNEY GENERAL REPORT

No report was given.

5. INVESTMENT COMMITTEE REPORT

Total assets in the fund at the end of November totaled in excess of \$5.1 billion.

Total fund return for the month was a positive 3.2%, equal to the Delaware benchmark of 3.2% but slightly below the 60/35/5 benchmark of 4.0%.

The month of November registered strong returns across all equity markets. The Board Market of Russell 3000 stocks returned 7.7%; Large Growth rebounded by 9.6% and Value gained 5.8% during the month. EAFE was up 3.7%. Increased longer interest rates caused the Lehman LT Govt/Corp to drop 3.4%.

5. INVESTMENT COMMITTEE REPORT - CONTINUED

Fiscal year returns to date are -1.5% compared to a -1.6% benchmark. Calendar Year to date returns registered a -6.8% loss for the past 11 months compared to a 4.1% loss for the benchmark. Variance to the Calendar Year benchmark is mainly due to the under performance of private equity during this time period. Private equity returns are still being recorded at the 6/30/01 valuations and will be brought forward to the September quarterly returns in December.

A poll vote was conducted on November 13, 2001 to approve moving an additional \$60 million to Oaktree Emerging Market Fund III. This doubles our investment to \$120 million in a fund that has had strong returns against their benchmark. This fund uses a hedged strategy that focuses on avoiding losses. Calendar YTD returns are 34.6% compared to a - 18.4% hedged EAFE and a - 11.8% Emerging Market Free Index. The additional allocation is being made since this fund is closing and future investments will be precluded

MOTION was made by D. Stratton and seconded by J. King to ratify the November 13, 2001 poll vote conducted by C. Ulmer.

MOTION ADOPTED UNANIMOUSLY

The Investment Committee also recommends an additional allocation of \$150MM be made to T. Rowe Prices High Yield Fund. This raises our opportunistic investment in this segment of fixed income to 5% of the Fund. Funds will mostly be sourced from their short-term bond fund. The committee feels that there are higher possible fixed income returns due to narrowing spreads in the high yield market that will help offset the losses that will occur when interest rates begin to rise. It will slightly increase the overall risk in the Fund but is within parameters.

MOTION was made by N. Shevock and seconded by R. Allen to approve the Investment Committee's recommendation to allocate an additional \$150MM to T. Row Prices High Yield Fund.

MOTION ADOPTED UNANIMOUSLY

6. PENSION ADVISORY COUNCIL REPORT

The Board expressed its sympathy to Jim Testerman for the death of his mother-in-law. C. Lister reported that the Pension Advisory Council officers were re-elected at the last Pension Advisory Council meeting. James B. Testerman will continue serving as Chairman along with Larry Talley as 1st Vice Chairman and Charlotte Lister as 2nd Vice Chairman. The PAC workshops are being scheduled to be held in March and April. The legislative agenda will be discussed at the January meeting.

7. PENSION ADMINISTRATORS' REPORT

Communications

A copy of the Global Aging – Capital Market Implications report was distributed to the Trustees. Copies of the DPERS Newsletters to retirees were also distributed.

Discussion took place regarding rumors that another ERO may take place. L. Blunt-Bradley stated that an ERO is not being planned because of the expense.

F. Liston reported that the rate for the New State Police Plan should be corrected to 8.3% and not 7.58% as previously reported at the October 2001 Board meeting.

MOTION was made by R. Allen and seconded by Nancy Shevock to adopt the proposed FY 2003 actuarial rate of 8.3% for the New State Police Plan.

MOTION ADOPTED UNANIMOUSLY

D. Craik informed the Board that the County/Municipal Cola Fund returned \$2.4 M to the State's General Fund.

The Town of Elsmere is considering investing \$1.5M into the Delaware Local Government Investment Pool. They have requested to attend a future Board meeting to discuss this issue.

In the Revised Judicial Plan, seven out of the ten judges contacted have responded to Pension Office communications regarding their option to amend their benefit election.

8. AUDIT COMMITTEE

No report was given.

9. PENDING ITEMS

Copies of the Draft Actuarial RFP were given to Nancy Shevock and Calvin Scott for review. The process should be completed for a selection to be made at the April Board meeting.

The Board discussed the status of finding a trustee to fill the current vacancy.

10. ADJOURNMENT

At 11:10 p.m., there being no further business,
MOTION was made by R. Allen and
seconded by J. King to adjourn the meeting.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

David C. Craik
Pension Administrator

A. Dale Stratton, Chair
Board of Pension Trustees