

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 DECEMBER 17, 2004

The meeting of the Board of Pension Trustees was called to order by P. Reese at 9:00 a.m. in the Delaware Conference Room of the Office of Pensions in Dover.

Trustees Present

Philip S. Reese
Robert W. Allen
Jan King
Nancy J. Shevock
Helen Foster
Dana Jefferson

Trustees Absent

David W. Singleton

Others Present

Marsha Kramarck, DAG
David Craik, Pension Office
Kim Vincent, Pension Office
Alice Simon, Pension Office
Kathy Kunkle, Pension Office
Joanna Adams, Pension Office
Dorothy Clemente, Pension Office
Elaine Loboda, Pension Office
Kristal Diaz, Pension Office
James Testerman, Pension Advisory Committee
Charlotte Lister, Pension Advisory Committee

Joel Poorman, Audit Committee
Dr. William Shellenberger, Medical Committee
Dr. Charles Riegel, Medical Committee
Dr. Robert Frelick, Medical Committee
Dr. Vincent DelDuca, Jr., Medical Committee
Dr. Phyllis Smoyer, Medical Committee
Dr. Ignatius Tikellis, Medical Committee
Dr. Albert Gelb, Medical Committee
Dr. Thomas Weir, Medical Committee
Brain Dowdy, FOP representative
Joseph Vrudny, DRSP representative

1. OPENING COMMENTS

The meeting of the Board of Pensions Trustees was called to order at 9:00 a.m. P. Reese welcomed all to the meeting, and invited members of the Medical Committee present to give their annual update to the Board.

2. APPROVAL OF THE MINUTES

The Trustees reviewed the minutes of the November 19, 2004 meeting.

MOTION made by J. King and seconded by R. Allen to approve the minutes of the Board of Pension Trustees' November 19, 2004, meeting.

MOTION ADOPTED UNANIMOUSLY

3. MEDICAL COMMITTEE REPORT

D. Craik gave a status report on the process to award a contract for disability insurance to cover members of the State Employees Pension Plan. Because of legislative changes necessary to institute a new program, and the time needed to properly inform employees of the benefit, it is most likely that the program will become effective January 1, 2006. The program will coordinate case management and offer an effective return to work component.

Dr. Shellenberger expressed appreciation for the progress made in instituting the disability insurance program, and expressed the Committee's belief that the State should expand the availability of "light duty" work for employees able to return to work; and permit time extensions for those employees whose disability coverage ends with the school year. He also expressed deep gratitude for Dorothy Clemente's dependable support of the Medical Committee.

Dr. Frelick is pleased with the reported progress, but concerned that the efforts may fall short of making all improvements the Committee deems necessary. Dr. Frelick distributed a copy of the changes in the Delaware Code he is recommending to Sen. P. Blevins regarding the current State medical disability statute. P. Reese thanked the Medical Committee members for their work and suggested that the members discuss the draft Code revisions, and develop a consensus for Committee action.

4. GOVERNANCE ISSUES

P. Reese suggested that this item remain on the agenda as a follow-up and for discussion purposes during the Best Practices review.

4. GOVERNANCE ISSUES (continued)

P. Reese announced the Elva Ferrari, Chair of the Investment Committee, plans to step down effective June 30, 2005. He has asked Jan King to take that position, which follows the recent Board action to appoint a Board member as chair of that committee. J. King and R. Allen are both expected to be re-confirmed by the Governor for another term to the Board.

P. Reese had a meeting with outside consultants and Pension Office staff to help scope out the parameters of the Best Practices Review, which will include a review of the investment process. They will present a report to the Pension Office staff for review. The Board and Committees will receive a copy of the final version before the issuance of a RFP.

5. INVESTMENT COMMITTEE REPORT

INVESTMENT PERFORMANCE – MONTH ENDING NOVEMBER 30, 2004

<u>Fund</u>	<u>Previous Month</u>	<u>Fiscal Year To Date</u>	<u>12-Month</u>
Total Fund	3.6%	6.6%	14.2%
S & P 500 Index	4.0%	3.7%	12.8%
60/35/5*	2.0%	3.4%	9.2%
Delaware	2.4%	4.4%	10.2%
Benchmark**			

*Benchmark mix of 60% S&P500 Index, 35% Salomon Long Government and Corporate Bond Index, 5% T-bills.
**Benchmark mix of 45% Russell 3000, 10% EAFE (international), 43% Lehman Bond aggregate and 2% T-bills.

Total assets in the fund at the end of November totaled \$5,826 million.

The fund posted a month of strong performance with November gaining a 3.6% return during the month. This return exceeded to the Delaware Benchmark of 2.4% and was higher than the 60/35/5 benchmark of 2.0%.

The month of November was another positive one for the equity markets. The Russell 3000 stocks gained 4.6%, Large Growth stocks gained 3.4% and Large Value index returned a positive 5.1%. Small cap stocks posted the strongest returns in the equity market with the Russell 2000 returning a positive 8.7%. The international markets led the U.S. market again with the unhedged EAFE returning a positive 6.8%. The bond market was down with the Lehman LT Government/Corp Index off 1.9%, but the High Yield sector returned a positive 1.1% as spreads begin continue to narrow and higher coupons.

The fiscal year returns for the five months for the Fund will be reported at a positive 6.6%, compared to a 4.4% benchmark. Calendar years to date returns are 10.2% compared to 6.7% for the

5. INVESTMENT COMMITTEE REPORT (continued)

Delaware Benchmark. With stronger equity markets, the Mellon TAA with current allocation of 90% toward equities is working in our favor. The month of December is a positive one to date with a Broad Market return of roughly 2.8% by mid December.

The meeting of the Investment Committee this week included our annual meeting with the people from Mellon Capital who manage both our Tactical Asset fund and our Global tactical asset fund. The Committee also reviewed investment manager fees. Fees for fiscal 2004 were .30%, which is slightly higher than the .28% from the previous year. The higher fees are mainly due to more funds in active management versus passive index funds. All current managers are delivering performance in excess of fees over their appropriate index on a five-year performance basis.

The poll vote of December 14 needs to be affirmed by the Board. The Investment Committee recommended the investment in a secondary purchase of a venture capital investment of Media Technology Venture III with the general partner of Allegis Capital. This would be an initial cash outlay of up to \$1 million plus an assumed responsibility to make additional capital calls of up to \$.5 million. The Committee believes the secondary interest to be attractive on a stand-alone basis. We are interested in using this investment as a means of learning more, as due diligence, for potential future investments. This will give us insight into Allegis Capital and their corporate limited partners.

MOTION made by R. Allen, seconded by H. Foster to ratify the December 14, 2004, poll vote to commit up to \$1.5 million in a secondary purchase of a venture capital investment in the Media Technology Venture III fund managed by Allegis Capital, subject to satisfactory negotiation and document execution.

MOTION ADOPTED UNANIMOUSLY

The next meeting of the Investment Committee will be January 11.

6. AUDIT COMMITTEE REPORT

J. Poorman reported that two accounting companies (KPMG and Siegfried Group) attended the mandatory pre-bid meeting, and are expected to submit bids to the Auditor of Accounts for the FY05 pension audit. Staff from the Auditor's office, the Pension Office, and members of the Audit Committee will review the proposals. The Auditor of Accounts will make the contract award in early February.

J. Poorman presented the Delegation of Responsibilities to the Audit Committee for Board consideration. He commented that this list was not greatly different than the first list of Audit Committee

6. AUDIT COMMITTEE REPORT (continued)

responsibilities drafted in 1981. P. Reese agreed that the list of responsibilities is reflective of the first delegation back in 1981, and now reflects a state of the art response in the wake of the Sarbanes-Oxley Act.

MOTION made by R. Allen, seconded by J. King to adopt the Delegation of Responsibilities to Audit Committee.

MOTION ADOPTED UNANIMOUSLY

7. PENSION ADVISORY COUNCIL

J. Testerman congratulated the Board for the fiscal year-to-date performance, as reported in a recent issue of the Delaware State News. P. Reese requested that copies of all future news references to the Pension System be distributed to Board members in the meeting packets.

8. PENSION ADMINISTRATOR'S REPORT

D. Craik met with representatives of the Delaware Volunteer Firemen's Association to discuss the FY06 employer contribution rate. Some fire company representatives expressed a desire to step-up next year's expected increase by a margin greater than 10 percent. This will be considered in next year's discussion of rate adjustments.

D. Craik met with officials from the City of Lewes who are considering entering the County & Municipal Police and Fire and the Other Employee plans. The City of Dover is considering investing funds with the Pension System in the Delaware Local Government Investment Pool to pre-fund pensioner health care. In addition, the City of Milford wishes to join the County & Municipal Police & Fire and the General Employee Plans effective January 1, 2005. Milford plans to purchase (at the actuarially calculated cost) prior service up to 15 years for Other Employees Plan participants and up to 10 years for participants in the Police and Firefighters' Plan.

MOTION made by N. Shevock, seconded by R. Allen to allow the participation of the City of Milford in the County & Municipal Police and Firefighters' Plan and the County & Municipal Other Employees Plan.

MOTION ADOPTED UNANIMOUSLY

9. EXECUTIVE SESSION

The Board convened an Executive Session to discuss a pension appeal. Upon exiting the Executive Session, a motion was made to deny the appeal.

MOTION made by J. King, seconded by R. Allen to deny the appeal by Janet F. Morris for interest on contributions withheld in error.

MOTION ADOPTED UNANIMOUSLY

10. PENDING ITEMS

Pending Items List #3 – D. Craik reported he will be looking at possible abuses by agencies and/or school districts that immediately rehire recently-retired SEPP pensioners to work as casual/seasonal school district employees without affecting their current pensions.

Pending Items List #4 – Delegation of Authorities has been completed; this item should be deleted.

N. Shevock will follow-up with P. Reese regarding recommendations on information on investments to be provided to the Board on a regular basis.

11. ADJOURNMENT

The next Pension Board meeting will be held on January 28, 2005, at 9:00, in the Delaware Conference Room of the Office of Pensions.

At 10:40 a.m., there being no further business, MOTION was made by R. Allen and seconded by N. Shevock to adjourn the meeting.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

David C. Craik
Pension Administrator

Delegation of Responsibilities to Audit Committee

The Board of Pension Trustees (Board) hereby delegates those responsibilities listed below to the Audit Committee, superseding all previous delegations, and subject always to future modifications by the Board. The Audit Committee may undertake the following actions without prior or separate approval by the Board:

1. Advise the Board and monitor the integrity of Delaware Public Employees' Retirement System (DPERS) accounting policies, internal controls, financial statements, financial reporting practices and significant risk exposures, and steps management has taken to monitor, control and report such exposures, with the assistance of DPERS management, its independent auditors, and the State audit team.
2. Meet with independent auditors and State Auditors during the course of their annual audit, and at other times as appropriate, to review all findings, recommendations and reports concerning the adequacy of internal accounting controls, procedures, and systems; compliance with existing Board practices, State, Federal and other laws and regulations; and suggestions for operating efficiencies and improvements, including follow up, as necessary, to insure that all recommendations are implemented.
3. Monitor the qualifications, independence and performance of our independent auditors.
4. Monitor DPERS overall direction and compliance with legal and regulatory requirements, including code of conduct and ethics.
5. Maintain open and direct lines of communication with the Pension Board and DPERS management, State Auditors and independent auditors.

ADOPTED this 17th day of December, 2004
by Resolution and vote of the Board of Pension Trustees

Philip S. Reese, Chair
DPERS Board of Pension Trustees

