

STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
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BOARD OF PENSION TRUSTEES
MEETING MINUTES OF FEBRUARY 29, 2008

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
Nancy Shevock
Helen Foster
Jan King
Robert Allen
Richard Cordrey
Jennifer Davis

Trustees Absent

Others Present

David Craik, Pension Office
Terri Timmons, Pension Office
Cindy Collins, DAG
Jim Testerman, PAC
Charlotte Lister, PAC
Kathy Kunkle, Pension Office
Rob Gooderham, Ashford Consulting Group
Gary Musto, Ashford Consulting Group
Linda Drew, Ashford Consulting Group
Paul L. Kasriel, Director of Economic Research, Northern Trust
Pam Newton, Vice President, Northern Trust

1. OPENING COMMENTS

The meeting of the Board of Pensions Trustees was called to order by P. Reese.

2. APPROVAL OF THE MINUTES

The Trustees reviewed the public minutes of the January 25, 2008 meeting.

MOTION made by J. King and seconded by R. Allen to approve the public minutes of the Board of Pension Trustees' January 25, 2008 meeting.

MOTION ADOPTED UNANIMOUSLY

The Trustees reviewed the executive minutes of the January 25, 2008 meeting.

MOTION made by J. King and seconded by N. Shevock to approve the executive minutes of the Board of Pension Trustees' January 25, 2008 meeting.

MOTION ADOPTED UNANIMOUSLY

3. INVESTMENT COMMITTEE REPORT

Economic Outlook

P. Reese introduced Paul L. Kasriel, Director of Economic Research with Northern Trust. Mr. Kasriel spoke in reference to the following items:

- The economy and outlook for the first half of 2008
- Housing and consumer discretionary spending
- Unemployment rate
- Inflation
- The combination of aggressive Federal interest rate cuts and the Federal fiscal stimulus program
- The 2009 recovery and continued credit constraints

A discussion followed Mr. Kasriel's presentation with the Trustees asking many questions.

MOTION was made by J. King and seconded by R. Allen to enter into Executive Session.

MOTION ADOPTED UNANIMOUSLY

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 was made by J. King and seconded by R. Allen to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

The Board had a discussion on the Sudan Divestment Legislation, which Senator McDowell has indicated he intends to introduce this session. The Board discussed its fiduciary obligation to manage and administer the assets of the Delaware Public Employees' Retirement System for the exclusive use and benefit of the beneficiaries of the Trust Fund. Additionally, the Board considered its fiduciary obligations to make investment decisions in order to maximize the long term risk-adjusted investment returns of the Trust Fund. Further the Board considered its long standing policy that it does not engage in social investing. At the conclusion of the discussion the Board reviewed a resolution setting forth the general policy of the Board related to its fiduciary obligations and its policy toward engaging in divestment activities.

MOTION was made by J. King and seconded by H. Foster to approve the DPERS Board of Trustees' Resolution on Divestment.

MOTION ADOPTED UNANIMOUSLY

<u>Fund</u>	<u>Previous Month</u>	<u>Fiscal Year To Date</u>	<u>12-Month</u>
Total Fund	(3.4)%	(0.8)%	4.9%
S & P 500 Index	(6.0)%	(7.3)%	(2.3)%
60/35/5*	(2.9)%	(1.5)%	2.2%
Delaware	(3.6)%	(1.3)%	3.4%
Benchmark**			

*Benchmark mix of 60% S&P500 Index, 35% Salomon Long Government and Corporate Bond Index, 5% T-bills.

**Benchmark mix of 37% Russell 3000, 1% NAREIT, 20% MSCIA, 38.5% Lehman Bond universal, 1.5% LBTIPS, 2% T-bills.

Total assets in the Fund at the end of January totaled \$7,223 million. The Fund lost (3.4%) for the month compared positively to a benchmark of a negative (3.6%) but behind the 60/35/5 benchmark which was a negative (2.9%).

During the month of January the Fund experienced losses in all equity markets. The Russell 3000 stocks lost (6.1%), Large Growth stocks lost (8.4%) and Large Value Index returned a negative (4.0%). Small Cap stocks also experienced losses of (6.8%) in the equity market according to the Russell 2000 Index. The International Markets experienced higher losses compared to the U.S. Market with the unhedged EAFE returning a negative (9.2%). The Bond Market reflected in with Lehman LT Government/Corp Index also experiencing gains of 1.1% due to the dropping interest rates.

The fiscal year unaudited year-to-date for 7 months for the Fund will be reported at a (.8%) loss, compared positively to a negative (1.3%) benchmark. Calendar returns are the same as the month of January returns.

Given the turmoil in the credit markets, in its' January 29th meeting, the Investment Committee met with bond managers Lehman Asset Management and Loomis, Sayles & Co. Western Asset Management met with the Committee during its' February 12th meeting. At its February 26th meeting our International Manager, Axiom International reviewed its performance and selection process with the Committee. A potential new manager will be meeting with the Committee at its March meeting.

The Investment Committee recommends a \$50 million allocation to a new fund in distressed debt forming at Oaktree Capital Management. The Committee also passed on several secondary offerings from Onset and extended its investment in Summit V by 2 years until March, 2010.

MOTION was made by N. Shevock and seconded by R. Allen to recommend a \$50 million allocation to a new fund in distressed

debt forming at Oaktree Capital Management Opportunities Fund VII b.

MOTION ADOPTED UNANIMOUSLY

MOTION was made by R. Allen and seconded by J. Davis to enter into Executive Session.

MOTION ADOPTED UNANIMOUSLY

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 was made by J. King and seconded by R. Allen to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

The Board had a discussion on the investment policy as well as asset allocation issues as it pertains to the illiquid investments in the portfolio.

MOTION was made by J. King and seconded by N. Shevock to recommend that the current 15% illiquid limit be re-defined to a 30% illiquid limit.

MOTION ADOPTED UNANIMOUSLY

MOTION was made by J. King and seconded by N. Shevock to recommend changing the Derivatives Policy to state: "Selected investment managers are permitted to use derivatives as identified in separately managed account Schedule "A" or commingled account documentation".

MOTION ADOPTED UNANIMOUSLY

4. PENSION ADMINISTRATOR'S REPORT

Second Quarter Statistics

D. Craik stated that the Deletes figure that needed to be check was found to be incorrect. He reported that the “Deletes” of 1,500, which were reflected in the previous report, should have been 190. A new report was included in the Board packets.

Legislative Update

The Legislature is on a Budget Break and no action has been taken.

Senator Cook asked D. Craik to prepare SB 209, which had not been sent to a committee yet. SB 209 would increase the Burial Benefit from \$7,000 to \$8,750. The cost of this would be \$1.2 million.

D. Craik spoke to the Trustees about the current vacancies that the Pension Office has. A Hiring Plan was sent to our Human Resources Office which classified the three vacancies as high. We are waiting for approval to see if we can fill these positions.

5. PENSION ADVISORY COUNCIL REPORT

J. Testerman reported that he had testified before the Joint Finance Committee regarding his association’s desire for an increase to retirees’ pensions.

He also stated that the Pension Advisory Committee would like to see the Burial Benefit increased or other measures taken due to this benefit now being taxed by the IRS.

The spring pre-retirement workshops have been scheduled. Mr. Testerman stated that the Pension Office staff has taken care of scheduling and coordinating this effort for the past several years.

6. DEPUTY ATTORNEY GENERAL REPORT

C. Collins reported that she had prepared a timeline for DPERS Rules and Regulations updates. All nine plans will be updated and distributed to the Trustees for review by April 25th so that any changes can be discussed prior to the public hearing in July. C. Collins, D. Craik and Ice Miller will review before filing the changes with the IRS.

7. PENDING ITEMS

D. Craik stated that there were no new pending items.

8. NEW BUSINESS

There was no new business to discuss.

9. ADJOURNMENT

The next Pension Board meeting is scheduled to be held on March 28, 2008, at 9:00 a.m., in the Delaware Conference Room of the Office of Pensions.

At 12:23 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

Philip S. Reese
Board of Pension Trustees Chairman