



STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
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BOARD OF PENSION TRUSTEES
MEETING OF JANUARY 12, 2001

The meeting of the Board of Pension Trustees was called to order by D. Stratton at 9:02 a.m. in 2nd floor conference room, Thomas Collins Building, Dover.

Trustees Present

A. Dale Stratton
Jan M. King
Robert W. Allen
Lisa Blunt-Bradley
David W. Singleton

Trustees Absent

Keith Dorman

Others Present

Harriet N. Smith Windsor, Secretary of State
Joel Poorman, Audit Committee Chair
Donald Hoffman, Audit Committee
James B. Testerman, Pension Advisory Council
Charlotte Lister, Pension Advisory Council
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
Kathy Kunkle, Pension Office

1. OPENING COMMENTS

D. Stratton opened the meeting by welcoming the new Trustees Lisa Blunt-Bradley, State Personnel Director, and David Singleton, Secretary of Finance. D. Stratton provided introductions of all meeting attendees for the benefit of the new trustees.

Harriet Smith Windsor was invited to attend the meeting to officially thank her for serving as a Pension Board Trustee and to wish her well in her new endeavor as Secretary of State. H. Windsor introduced Lisa Blunt-Bradley as the new State Personnel Director. H. Windsor stated she was proud to have served on the Pension Board that has lead the Delaware Employees' Public Retirement System (DEPRS) in becoming a national model. H. Windsor departed the meeting to attend to other business.

A Resolution for Harriet Smith Windsor was presented and reviewed by the Board.

MOTION was made by J. King and seconded by R. Allen to approve the Resolution as presented for H. Smith Windsor.

MOTION ADOPTED UNANIMOUSLY

D. Stratton read a letter that she received from an investment manager, Howard Marks, Chair of Oaktree Capital Management, expressing his congratulations on the quality of the DPERS 29th Comprehensive Annual Financial Report (CAFR). His letter complimented the CAFR for its clarity and completeness and also praised the investment performance of the Fund. D. Stratton reported that Mr. Marks was in attendance at the last Investment Committee meeting and had the opportunity to meet Alice Simon who is the person in the Pension Office responsible for the completion of the CAFR.

Trustees were informed that a brief Executive Session would be held regarding pending litigation pertaining to alleged fraud in the receipt of a pension benefit.

2. APPROVAL OF THE MINUTES

The Trustees reviewed the minutes of the December 15, 2000 meeting.

MOTION was made by R. Allen and seconded by L. Blunt-Bradley to approve the minutes of the December 15, 2000 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

3. KEY INVESTMENT RISK DISCUSSION

Members of the Audit Committee were in attendance for the discussion of *Key Investment Risks and Common Practices to Address Those Risks* document.

A committee of public pension system chief investment officers of state investment funds and investment fund auditors generated this document. The intent of the risk document was to identify common risks faced by public pension systems and the practices being utilized to address those risks. D. Stratton asked committees of the Board to review the document for discussion.

The Investment Committee discussed and provided its perspective at the last committee meeting. The Committee felt that the areas of securities lending and risk control of the custodian bank were not adequately addressed by the report. DPERS does not participate in securities lending so it is not an issue. The Audit Committee was given an opportunity to address what has been done in the past regarding risk control of Mercantile, which has been the custodian bank of the Fund since 1975.

J. Poorman said that the Audit Committee relies on the independent auditors of the custodial bank. The Committee has completed a management review of Mercantile. Mr. Poorman stated the Committee has been impressed that in the last five years Mercantile's personnel representatives have been the same employees. Other custodial banks have a great personnel turnover that affects their operations. Mr. Hoffman added that Mercantile has a strong audit committee that reports to chief officers under federal and Maryland regulations and that many types of checks and balances are in place. The Committee receives and reviews all financial reports and researches any identified discrepancies. Discussion took place regarding regional banks providing better service and the major hardship that a fund would incur during the change of a custodial bank. J. King stated that there would need to be a strong reason for a fund to change its custodian bank. The DPERS receives exceptional service from Mercantile since the account is one of its longest standing accounts. It was suggested that a periodic review should be completed and documented of the custodial bank.

Discussion was held regarding turnovers within the Pension Board and how the subject is addressed in the risk document regarding the training of new members. This is a particularly appropriate time for this discussion since the Board is undergoing its largest turnover in recent years. D. Stratton asked C. Scott to provide a presentation at a future meeting on the law that governs the prudent person rule and fiduciary responsibility. D. Stratton expressed concern about losing institutional memory with the recent loss of trustees. Trustee vacancies need to be filled and the training of new trustees is a priority. There is a need for the functional and administrative roles of the Board to be articulated in writing. Discussion also took place regarding the need to periodically revise and review the Board of Pension Trustees' Code of Ethics policy.

D. Stratton provided the new trustees with a brief overview of the Pension Board and its committees. She explained that the Investment Committee is currently made up of two members of Pension Board and three private industry persons who have extensive investment knowledge. The Pension Board has the duty to maintain and invest the pension funds in DPERS. Delaware does not have a chief investment officer. The Investment Committee has limited authority as they primarily make recommendations to the Board for approval. All trustees are welcome and encouraged to attend investment meetings. R. Allen stated that it is valuable for new trustees to attend an Investment Committee meeting to get an appreciation of what the responsibilities entail. D. Stratton will arrange an informational presentation of investment practices to be presented by Ashford Capital Management.

Delaware does not have any state mandates regarding investment practices. The Investment Committee reports performance in relation to two benchmarks: a standard index of 60% S&P 500, 35% Shearson Lehman Government Corporation Bond and 5% Treasury Bills and the " Delaware index" made up of 45% Russell 3000, 10% EAFE, 43% Lehman Aggregate Bond Index, and 2% Treasury Bills.

Discussion took place regarding the extent to which the Board needs to formalize a legislative liaison. D. Stratton and D. Craik provided insight regarding the Board's role with legislative activities. It is the Board of Pension Trustees' position not to take active legislative positions, but to provide information so legislators can make informed decisions. Information is provided through various resources such as the Pension Benefits Review Committee. L. Blunt-Bradley informed that the State Personnel Office's Joint Finance Committee hearing date has been scheduled for February 14, 2001.

The Board found that there are no "glaring areas of concern" stemming from the investment risk discussion. Documentation of some current practices may be needed in order to communicate the Board's intent.

D. Stratton thanked members of the Audit Committee for their attendance and participation regarding the key investment risks document.

4. DEPUTY ATTORNEY GENERAL REPORT

C. Scott reported that the current Statute was distributed with incorrect information. He is writing code revisions to have the Statute corrected. One area needing correction is regarding the current multiplier used to calculate a pension benefit. The correct multiplier is 1.8% and not 1/8%.

The Budget Epilogue, in the Governor's recommended budget, did not include the correct percentage of payroll to be appropriated for the Post Retirement Health Insurance Premium Fund. The Budget Epilogue currently appropriates .32% of payroll to be deposited in the Fund instead of the .65% as passed last legislative session by Senate Bill 417.

5. INVESTMENT COMMITTEE REPORT

- a. Calendar Year 2000 produced a rude awakening for those investors who had seen nothing but a series of up markets. To put it in prospective: the S&P500 (large, blue chips) declined 9.1% and the Russell 3000 (broad market) was down 7.5%, Russell 2000 (small cap) declined 3%, Convertible Index was down 11.3%. In equities, the only positive returns were in Russell 1000 Value, Natural Resources, Real Estate Investment Trusts.
- b. For Calendar Year 2000, the Fund returned 10.5% versus -1.2% for a 60/35/5 benchmark and 0.2% for the DE benchmark. (45%R3000/10%EAFE/43%LBAggrate/2%t-bills)
- c. DPERS achieved positive performance by the managers outperforming their benchmarks, an increased allocation to bonds, and private equity holdings.
- d. For FY2001, Fund has a positive 0.3% return versus a -2.26% for a 60/35/5 benchmark and a -1.7% for the DE benchmark.
- e. The Investment Committee recommended that the Fund participate in ATV's newest venture partnership, ATV VIII, at the \$25MM level (3% of partnership). We have participated in ATV III, IV, V, VI. In ATV III, we bought two secondary positions after initial investment. Time weighted returns of all previous investments with ATV have exceeded 19%; IRR's have exceeded 25%. ATV V has returned 64% annualized and VI has returned 48%. Funding will come out of distributions from the overall private equity program.

MOTION was made by J. King and seconded by R. Allen to approve the participation of the Fund in ATV's newest venture partnership, ATV VIII.

MOTION ADOPTED UNANIMOUSLY

D. Stratton recommended that the Board formalize the number of Investment Committee members that constitute a quorum.

MOTION was made by J. King and seconded by Lisa Blunt-Bradley; whereby, three positive votes are required to carry a motion by the Investment Committee.

MOTION ADOPTED UNANIMOUSLY

6. PENSION ADVISORY COUNCIL REPORT

The Pension Advisory Council (PAC) last met on January 9, 2001. Adequate pre-funding of retiree health benefits was of the greatest importance on their legislative agenda. Discussion was held emphasizing education on the prefunding of healthcare benefits. D. Stratton commended the organization on its efforts and offered her assistance. Further discussion took place on ways to educate employees regarding the status of their future healthcare benefits. It was suggested to include educational information in future DPERS newsletters. C. Lister suggested possibly discussing this topic at a future State Personnel Office Forum. The PAC legislative agenda includes promoting legislation to eliminate the early retirement penalty, allowing an employee to buy-in sick leave, to increase the state tax exemption from \$12,500 to \$25,000, and increasing the multiplier.

The PAC annual workshops are being scheduled, in conjunction with the Pension Office, for March and April in each county. A flyer will be sent to all active employees with date and location information.

7. PENSION ADMINISTRATORS' REPORT

Medical Report

A comprehensive annual report was distributed and discussed covering disability applications and pensions reviewed by the Medical Committee for the month of January 2001. There were 13 new disability cases processed in the month of January.

Communications

D. Craik reported that three pension related bills have already been introduced:

- 1) HB 7 – This legislation proposes to increase the pool of substitute teachers by permitting retired teachers to be substitute teachers without affecting their pension or benefits.
- 2) HB 15 – This legislation makes former spouses of State of Delaware employees, or retirees, eligible to receive Survivor's Benefits associated with the State Employees' Pension Plan.
- 3) HB 17 – This legislation permits a school district to hire, for a critical need area, a retired teacher with the approval of the State Board of Education. The amendment clarifies that the pension of such employees will not be enhanced or be adversely affected under this provision.

Carolyn Williams provided an overview of the State of Delaware Office of Pensions Constituent Survey. Acuent Inc. was commissioned by the Pension Office to conduct a study of its membership to increase the understanding of the needs of both retirees and active members. Specific objectives included:

- Measuring awareness and use of the Office of Pensions services.
- Measuring satisfaction with selected services and benefits
- Increasing the understanding of the nature and frequency of contact with the Office of Pensions.
- Gathering information about computer and Internet use by the membership and researching reactions to potential elements of an Office of Pensions web site.

The membership survey was distributed by mail to 4,000 members. 2,000 surveys were sent to both active employees and retirees in August 2000. Harris Interactive received the returned surveys for processing and analysis. A total of 1,887 surveys were returned with 1,151 received from retirees and 736 from active members providing an overall response rate of 47%.

Results found that most were unaware of the Pension Office web site. The Pension Office will be working to educate the membership of the services offered through the web site. A new Pension Office web site will be launched in the spring. On a scale of 1-5, active members rated the Pension Office as a 4.3 and retirees as a 4.5. Discussion took place regarding the difficulty of locating the Pension Office web site. D. Stratton commended the Pension Office for conducting the survey and C. Williams for her presentation.

C. Williams provided an update regarding the pending relocation of the Pension Office. C. Williams and Barbara Warnell are encouraging Ted Nutter to begin lease negotiations. The intent is for the relocation to take place prior to August 2001. Construction is tentatively scheduled to begin on February 15, 2001. Updates will be provided regarding the status.

Discussion took place regarding trustee attendance at Board meetings. Attendance issues are not currently addressed in the Statute. Difficulty obtaining a quorum has been a problem due to trustee vacancies. Board members suggested implementing guidelines whereby three consecutive missed meetings, without an explanation, would warrant a trustee to be excused from his or her responsibilities. D. Craik will draft a trustee attendance policy using other state boards' attendance policies as an example.

8. AUDIT COMMITTEE

The Audit Committee attended the meeting and participated in the discussion on key investment risks. The Auditor's Office is preparing a RFP for services related to the financial audit of DPERS. Responses will be due in March. The Audit Committee will participate in the selection process.

9. PENDING ITEMS

The following items will be added to the Pending Items List.

- D. Stratton asked C. Scott to provide a presentation at a future meeting on the law that governs the prudent person rule to reaffirm the fiduciary relationship.
- D. Stratton will arrange an informational presentation of investment practices to be presented by Ashford Capital Management.
- D. Craik will review and revise the Board's Code of Ethics policy.
- D. Craik will draft a trustee attendance policy using other state boards' attendance policies as an example.

10. EXECUTIVE SESSION

MOTION was made by R. Allen and seconded by J. King, that the Board go into Executive Session to discuss pending litigation regarding alleged fraud in the receipt of a pension benefit.

MOTION ADOPTED UNANIMOUSLY

The Board then moved into Executive Session to discuss pending litigation regarding alleged fraud in the receipt of a pension benefit.

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

MOTION ADOPTED UNANIMOUSLY

11. ADJOURNMENT

At 11:38 a.m., there being no further business,

MOTION was made by R. Allen and
seconded by D. Singleton to adjourn the meeting.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

David C. Craik
Pension Administrator

A. Dale Stratton, Chair
Board of Pension Trustees