

STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
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BOARD OF PENSION TRUSTEES
MEETING MINUTES OF JANUARY 31, 2003

Trustees Present

Ralph J. Adkins
Jan M. King
Robert W. Allen
Nancy J. Shevock
Lisa Blunt-Bradley

Trustees Absent

David W. Singleton

Others Present

Steve Kubico, Deputy Controller General
Jim Testerman, Pension Advisory Council
Charlotte Lister, Pension Advisory Council
David C. Craik, Pension Office
Christy L. Ulmer, Pension Office
Alice L. Simon, Pension Office
Calvin L. Scott Jr., DAG

1. OPENING COMMENTS

The meeting of the Board of Pension Trustees was called to order at 9:01 a.m. by R. Adkins in the Delaware Conference Room of the McArdle Building.

2. APPROVAL OF THE MINUTES

The Trustees reviewed the minutes of the December 13, 2002 meeting.

MOTION was made by N. Shevock and seconded by J. King to approve the minutes of the December 13, 2002 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

3. DEPUTY ATTORNEY GENERAL REPORT

One appeal case was deferred to Executive Session. Trustees congratulated C. Scott on his appointment as a Superior Court judge and thanked him for his years of service. Mr. Scott expressed his gratitude and stated he has enjoyed working with this Board.

4. INVESTMENT COMMITTEE REPORT

INVESTMENT PERFORMANCE – MONTH ENDING DECEMBER 31, 2002

<u>Fund</u>	<u>Previous Month</u>	<u>Fiscal Year To Date</u>	<u>12-Month</u>
Total Fund	(2.5)	(5.8)	(9.7)
S & P 500 Index	(5.9)	(10.3)	(22.1)
60/35/5*	(2.6)	(3.3)	(10.0)
Delaware Benchmark**	(2.0)	(3.4)	(7.4)

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

**Benchmark mix of 45% Russell 3000, 10% EAFE (international), 43% Lehman Bond aggregate and 2% T-bills.

J. King distributed and discussed the Market Indexes Russell 1000 + Report.

The calendar year returns were negative 9.7% for the Fund and fiscal year returns year to date will be reported at a 6.2% loss, compared to a negative 5.2 % benchmark. This negative variance is mainly due to the 100% U.S. equity position of the Mellon-TAA during the entire time. J. King reported that in December 2002 the MLM commodities experienced a slight gain. Additional discussion was held on cash and fixed assets.

4. INVESTMENT COMMITTEE REPORT (CONTINUED)

The Investment Committee recommended changes to the investments in emerging markets. The strategy in this area exploits valuation inefficiencies, in developing country stock markets, by selectively investing in long and short positions in selected emerging market stocks. Oaktree Capital Management is offering current limited partners the option of rolling over their holdings into the existing OCM Emerging Markets Fund III. We currently have investments in both funds. The commitment must be made by the end of February.

A motion was made by R. Allen, seconded by N. Shevock, to rollover the investment in the Oaktree Capital Management (OCM) Emerging Markets Fund upon its scheduled renewal date into the OCM Emerging Markets Fund III. In addition, an additional investment be made in OCM Emerging Markets Fund III totaling \$60 million, subject to our ability to negotiate liquidity terms for the investment, which is a commitment for an average of three years. The additional funding would come from the Mellon GTAA account.

MOTION ADOPTED UNANIMOUSLY

5. PENSION ADVISORY COUNCIL

J. Testerman gave the report of the Pension Advisory Council. The Council's current primary legislative goal is that funding be appropriated into the Post Retirement Health Insurance Premium Fund. The Council is encouraging the Pension Review Committee to reconvene. Larry Talley will continue to be the Council's representative on the Pension Review Committee. D. Craik stated that three members will need to be appointed to the Pension Review Committee by the Pension Board Chair.

6. PENSION ADMINISTRATOR'S REPORT

Legislation

Three bills have been introduced in the 142nd General Assembly:

- HB 12 – Allows County/Municipal police to buy in police service at the actuarial rate.
- SB 21 – Allows judges to purchase previous service with the City of Wilmington Municipal Court. This has passed the House and is currently waiting for the Governor's signature.
- HB 42 – permits law enforcement officers and probation and parole officers to retire after 25 years of service with no penalty (correction officers, DNREC, Prob & Parole)

D. Craik is preparing the cost estimates for a bill to reinstate the benefits for the approximate fifty survivors in the SEPP who remarried and lost their pension benefit. Due to the current budget situation, a bill will most likely not be introduced. The benefit funding for the survivors in the Closed State Police Plan, as reinstated by HB 385, was included in next fiscal year's Budget.

6. PENSION ADMINISTRATOR'S REPORT (CONTINUED)

Communications

The Budget included pension rates for State Employees, Judges and State Police Pension Plans to be funded as the Board has requested. The Post Retirement Increase Fund amount will remain the same as last year, at 1.33%. Currently, there are no funds allocated to the Post Retirement Health Insurance Premium Fund. The amount was previously set at .37%, but is now down to zero. The pay-as-you-go health insurance rate has increased from 4.78% to 5.91%.

The JFC hearing for the State Personnel Office will be held on March 12, 2003 at 3:30 p.m.

Effective July 1, 2003, the Closed State Police Plan will receive a 1.37% post retirement increase.

The E-cris project has reached a milestone as the upgrade is completed. The Pension Office has begun the transition and is currently running two systems parallel. The pension payrolls for October and December 2002 were tested and any discrepancies have been found and corrected. L. Blunt-Bradley stated that it is very significant what the Pension Office has been able to accomplish. She commented that "the potential for this upgraded system is great." Lisa commended David Craik, John McCartney and their staff on achieving this important project milestone. Trustees requested a demonstration of the new system at a future meeting.

February is the seconded largest month for adding new retirees to the payroll. The Pension Office is looking at reassigning the current workload due to the increased amount of work and position vacancies.

L. Blunt-Bradley reported that Helen Foster Parson has been nominated to fill the vacant trustee position. Ms. Parson is a Harvard educated lawyer who currently works with the Metropolitan Wilmington Urban League.

D. Craik is currently drafting the report to House of Representatives due on February 1, 2003 per House Resolution 51 regarding disability pensions, annual leave, donated leave and disability provisions in school districts. One aspect of House Resolution No. 51 was to design a plan to provide adequate coverage to State employees. In order to provide a comprehensive plan further information needs to be gathered regarding the costs of these coordinated programs. A Request for Information (RFI) will be conducted to assess these costs. These cost estimates will help determine what type of plan can be developed and what resources might be required of the State to fund the program.

AFSCME has once again requested addresses of State of Delaware pensioners. In order to maintain confidentiality, L. Blunt-Bradley has granted a one-time opportunity to the retiree organizations to distribute a one-page enclosure to pensioners. The Pension Office will distribute the enclosure and associated costs will be passed onto the organizations.

6. PENSION ADMINISTRATOR'S REPORT (CONTINUED)

Medical Report

Comprehensive monthly reports for the months of December 2002 and January 2003 were distributed. There were 29 new disability cases processed in the month of January 2003, none of which were denied.

7. AUDIT COMMITTEE REPORT

The Audit Committee met on December 19, 2002. Committee members completed the annual review of the investment flowcharts. Mercantile Trust attended and provided a presentation. The Committee also reviewed the current status of investments in commodities.

8. PENDING ITEMS

Item Number 2, regarding having follow-up legislation regarding having 29 Del C. §5605(b) stricken from the Judge's Plan, is to be removed from the Pending Items list. Legislation has passed to address this issue.

9. EXECUTIVE SESSION

MOTION was made by R. Allen and seconded by L. Blunt-Bradley that the Board go into Executive Session to consider legal advice and to consider pending personnel matters and confidential personnel records.

MOTION ADOPTED UNANIMOUSLY

The Board then moved into Executive Session to discuss pending personnel matters and confidential personnel records.

MOTION was made by R. Allen and seconded by L. Blunt-Bradley that the Board exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

10. APPEAL CASE

Following a discussion in Executive Session, the following motion was made:

MOTION was made by J. King and seconded by R. Allen to approve the Hearing Officer's Report and Recommendation, whereby the request of Anais Badia to be eligible for a pension at age 60 based upon a purchase of service credit is denied.

MOTION ADOPTED UNANIMOUSLY

11. ADJOURNMENT

The next Pension Board meeting will be held on February 28, 2003 in the McArdle Building Delaware Conference Room in Dover, Delaware.

At 10:00 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

Ralph J. Adkins, Chair
Board of Pension Trustees