

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 JANUARY 30, 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 McArdle Building.

Trustees Present

Philip S. Reese
Jan M. King
Robert W. Allen
Nancy J. Shevock
David W. Singleton
Helen Foster Parson

Trustees Absent

Lisa Blunt-Bradley

Others Present

Jim Testerman, Pension Advisory Council
David Craik, Pension Office
Kimberly Vincent, Pension Office
Alice Simon, Pension Office
Marsha Kramarck, DAG

1. OPENING COMMENTS

P. Reese introduced himself and discussed his appointment as Chair of the Pension Board. He provided a brief explanation of his background and asked the other Board members and guests to introduce themselves along with a discussion of their background.

2. APPROVAL OF THE MINUTES

The Trustees reviewed the minutes of the December 19, 2003 meeting.

MOTION was made by R. Allen and seconded by D. Singleton to approve the minutes of the December 19, 2003 Board of Pension Trustees' meeting.

MOTION ADOPTED UNANIMOUSLY

3. INVESTMENT COMMITTEE REPORT

INVESTMENT PERFORMANCE – MONTH ENDING DECEMBER 31, 2003

<u>Fund</u>	<u>Previous Month</u>	<u>Fiscal Year To Date</u>	<u>12-Month</u>
Total Fund	3.6%	12.1%	22.8%
S & P 500 Index	5.2%	15.1%	28.7%
60/35/5*	3.5%	8.8%	18.5%
Delaware Benchmark**	3.3%	9.8%	19.1%

*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.

Total assets for the fund at the end of December total \$5.403 billion. In the month of December the U.S. equity market continued its positive run. The Russell 3000 index gained 4.6%, large growth stocks gained 3.5%, and large value stocks were at 6.2%. Small cap stocks continued to lag the market with the Russell 2000 returning 2.0%. The international markets outperformed the U.S. market with the unhedged EAFE returning 7.8% in December. The bond market also continued the positive gains for the month with the Lehman LT Govt/Corp Index gaining 1.4% and the High Yield sector returned a positive 2.5% as spreads continued to constrict.

The positive variance between fund to benchmark is mainly due to the high U.S. equity and International equity position of the Mellon-TAA and GTAA during the months that experienced strong equity returns. This is paying back for the months that Mellon's heavy equity weighting cost us return to benchmark.

Since the last Board meeting the Committee has met with two international managers, our existing manager Jarislowsky Fraser and a new manager Mercator Asset Management. A Poll Vote was conducted on January 13, 2004 at the request of the Investment Committee. The committee recommended the hiring of Mercator Asset Management as a relative value manager in international stocks. Funding of \$200 million is recommended through liquidation of \$200 million from Mellon GTAA. The firm has a 19-year history of high performance versus EAFE through various market cycles.

Motion was made by N. Shevock and seconded by R. Allen to ratify the poll vote conducted on January 13, 2004.

MOTION ADOPTED UNANIMOUSLY

After the hiring of Mercator Asset Management it was recommended that Mellon be used as a transition manager, as needed, for the funding up of Mercator. A poll vote was conducted on January 27, 2004 to allow Mellon to act as the transition manager. Mellon would act in a capacity of both selling holdings in GTAA and buying in holdings for Mercator. Given the dual nature of this trading, both buying and selling, authorization was needed for up to \$350 million of trades. The use of this transition manager for this purpose is expected to save \$500,000.

Motion was made by N. Shevock and seconded by R. Allen to ratify the poll vote conducted on January 27, 2004.

MOTION ADOPTED UNANIMOUSLY

As was discussed at the last Board meeting, there is an expectation of positive moves in the commodity and capacity utilization that is pushing up expected returns for the T. Rowe Price NRIS portfolio. A Poll Vote was conducted on January 13, 2004 to add additional funding of \$200 million to the NRIS account. Funding would be \$100 million from Mellon TAA and \$100 Million from Mellon GTAA.

Motion was made by N. Shevock and seconded by D. Singleton to ratify the poll vote conducted on January 13, 2004.

MOTION ADOPTED UNANIMOUSLY

As part of the movement of funds to NRIS, the manager has requested the interim use of S&P 500 futures as an alternative to holding cash until the judicious investments can be made. The contracts will be limited to cash on hand and will not be leveraged. The Committee has altered the Schedule A to authorize this type of transaction. A Poll Vote was conducted on January 27, 2004 to authorize the negotiation and execution of required contracts and other documents to allow for this investment.

Motion was made by H. Parson and seconded by N. Shevock to ratify the poll vote conducted on January 27, 2004.

MOTION ADOPTED UNANIMOUSLY

4. PENSION ADVISORY COUNCIL

J. Testerman expressed his pleasure at the continued positive investment returns. He stated that the Council has identified two main legislative objectives for the current legislative session:

- Pre-funding of retiree health insurance.
- Post retirement increase.

During the past year the Council lost two members due to the attendance clause in the statute. AFSCME and the Administrative Office of the Courts lost their positions due to not participating for a 12-month period.

5. PENSION ADMINISTRATOR'S REPORT

Medical Committee Report

D. Craik reviewed the December 2003 and January 2004 Medical Committee reports. There was nothing unusual to report nor had any cases fallen into the over 90 day category on the aging report.

Communications

D. Craik discussed the January 9, 2004 letter from Milliman USA that performed an analysis of the expected retirements over the next 10 years from the State Employees pension plan.

D. Craik announced that the Delaware Public Employees' Retirement System received its first Public Pension Coordinating Council (PPCC) Award for 2003. The PPCC is a coalition of National Association of State Retirement Administrators (NASRA), National Council on Teacher Retirement (NCTR), and National Conference on Public Employee Retirement Systems (NCPERS). The major PPCC goal is to promote excellence in plan design and administration among state and local public retirement systems. The Public Pension Standards are intended to reflect minimum expectations for public retirement system management and administration and serve as a benchmark by which all defined benefit public plans should be measured.

Legislative activity for the month of January has only seen two bills that apply to the Pension Office as well as the Governor's recommended budget. In the budget, all of the employer contribution rates that the Board adopted last month have been included. The Post Retirement Increase Fund has a rate of 1.7%, which has been increased to pay for the raise that was given in September, but still below the statutory rate of 2.33%. The pre fund retiree health account is again at 0% for the second straight year.

HB 321 enables Volunteer Ambulance companies in the State to participate in the County/Municipal Pension Plan for paid employees of the companies. SB 199 provides a \$500 bonus to employees that were employed as of December 16, 2003. This bonus is considered as creditable compensation for pension purposes. The bill has passed the Senate, but was not acted on by the House prior to their break for Budget hearings. If the bill were to pass the Pension Office would have to adjust the pensions of all employees that have retired since January 1, 2004.

The PeopleSoft 8.8 upgrade project was completed in January and went live after a month of testing. The next step would be to incorporate the e-applications piece as well as begin work on the interface that will be needed in April when the State's payroll system goes live with their upgrade effort.

6. AUDIT COMMITTEE REPORT

R. Allen reported that a meeting will be scheduled for early April to discuss the FY04 audit. At that meeting will be the new partner from Ernst & Young. P. Reese expressed his desire to attend this meeting as well as attend a meeting with the Custodian Bank. All parties will be notified once the meeting has been finalized.

7. DEPUTY ATTORNEY GENERAL REPORT

M. Kramarck had no items to report this month. The Board is current on all outstanding appeals.

8. PENDING ITEMS

- 1) For the disability project D. Craik will provide some further information on the following:
 - a) transition of sick leave balances
 - b) return to work component for school districts
 - c) employee contribution so that any benefits received are non-taxable.
- 2) A completion date of March 2004 should be added.
- 3) Items #3 and #8 will be presented at the February Board meeting by M. Kramarck.
- 4) Completed
- 5) Waiting for some further information from the Public Integrity Commission.
- 6) The scope of the item will change to allow P. Reese and M. Kramarck to review any Board governance issues that need to be addressed.
- 7) Will be presented at the April 2004 Board meeting.
- 8) Combined with #3.
- 9) No further update

D. Craik will reformat the pending items list to reflect the above discussions and to include some further information on each item.

9. ADJOURNMENT

The next Pension Board meeting will be held on February 27, 2004 in the McArdle Building Delaware Conference Room in Dover, Delaware.

At 10:10 a.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, Chair
Board of Pension Trustee