

STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
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BOARD OF PENSION TRUSTEES
MEETING MINUTES OF JULY 18, 2003

The meeting of the Board of Pension Trustees was called to order by R. Adkins at 9:00 a.m. in the Delaware Conference Room of the McArdle Building.

Trustees Present

Ralph J. Adkins, Chair
Jan M. King
Robert W. Allen
Lisa Blunt-Bradley
Nancy J. Shevock
Helen Foster Parson

Trustees Absent

David W. Singleton

Others Present

Theodore H. Ashford, Ashford Capital Mgmt.
Robert D. Gooderham, Ashford Capital Mgmt.
Theodore J. Suess, Ashford Capital Mgmt.
Linda Drew, Ashford Capital Mgmt.
Leonard J. Bardsley, Ashford Capital Mgmt.
Joel Poorman, Audit Committee Chair
Harold D. Smith, II, Audit Committee
Charlotte Lister, Pension Advisory Council
David C. Craik, Pension Office
Christy L. Ulmer, Pension Office
Alice Simon, Pension Office
Kathy Kunkle, Pension Office
Debbie Nicholson, Pension Office
Marsha Kramarck, DAG

1. OPENING COMMENTS

The meeting of the Board of Pension Trustees was called to order at 9:00 a.m. by R. Adkins in the Delaware Conference Room of the McArdle Building.

Mr. Poorman introduced new Audit Committee Member, Harold D Smith, II.

2. PRESENTATION - ASHFORD CAPITAL MANAGEMENT

Ashford Capital Management (ACM) was in attendance. Mr. Ashford opened the presentation by providing introductions for the other ACM attendees: Robert Gooderham, President; Theodore Suess, Immediate Past President; Linda Drew, Managing Director, Consulting Services; and Leonard Bardsley, Consultant, Quantitative Research. Ashford, Gooderham, Suess, Bardsley and Drew are all members of the ACM Operating Committee. Mr. Ashford stated that Tom Black and Christine Piekarski, while not present, are additional members of the ACM team supporting the Delaware relationship. Mr. Ashford stated that the purpose of the presentation was to review ACM's role in the Fund's investment process and the Fund results over the history of ACM's relationship with Delaware.

A background of ACM's relationship with DPERS was provided. The group present today represents a distinct unit within ACM dedicated to the Delaware consulting relationship. Mr. Ashford stated that, in order to avoid any conflict of interest, the separate investment management activity of ACM is prohibited by contract from ever serving as investment manager for the Fund and is managed as a separate activity. An overview of the Fund's investment objectives and policies was provided. Ashford Capital's work with the Investment Committee focuses on risk control and maximizing return within these risk controls.

Mr. Ashford then turned over the presentation to Mr. Gooderham who presented the overview of ACM operations, procedures and daily interaction with the Pension Office. An important aspect of the team's focus is controlling downside risk, which is reviewed each month at the Investment Committee meetings. ACM continually researches products and asset classes seeking opportunities, which meet risk and return parameters as well as making recommendations for managers to implement these opportunities.

Mr. Gooderham referenced several charts illustrating the asset class diversification of the Fund, the history of risk and return experienced, and noted that DPERS' return rank versus other public pension funds has consistently placed it in the upper quartile for rolling 10 year periods.

Mr. Ashford stated that ACM is extremely proud of the record of meeting the Fund's objective of obtaining a real rate of return in excess of 3% over rolling 15-year periods. He referenced charts illustrating the decline in state contributions as a percent of payroll and the increase in funded ratio as examples, which have benefited from the success of the investment process.

Mr. Ashford concluded by stating that ACM is continually seeking ways to improve the process, and that they are committed, involved and accountable. He then addressed questions from the group.

L. Blunt-Bradley asked about DPERS' real estate investments. Mr. Ashford stated that the Fund has never done direct real estate investments. He described a participating first mortgage fund, various commingled real estate vehicles and REIT investments as ways DPERS' has participated in the real estate asset class. Approximately 2.1% of the Fund is currently invested in REITs.

In response to a question, Mr. Gooderham reviewed DPERS' managed futures investment, stating that this asset class was extensively researched and reviewed with the Committee before being recommended. The manager uses a strategy that is broadly diversified and unleveraged. Expectations for this asset class are for a higher return than short-term bonds while broadening diversification for the Fund.

The Board congratulated Alice Simon and her staff along with the Pension Office for the DPERS annual report receiving the GFOA certificate of achievement award for the seventh year in a row.

3. APPROVAL OF THE MINUTES

The Trustees reviewed the minutes of the June 20, 2003 meeting.

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

MOTION ADOPTED UNANIMOUSLY

4. INVESTMENT COMMITTEE REPORT

INVESTMENT PERFORMANCE – MONTH ENDING June, 2003

<u>Fund</u>	<u>Previous Month</u>	<u>Fiscal Year To Date</u>	<u>12-Month</u>
Total Fund	1.0	3.1	3.1
S & P 500 Index	1.3	0.2	0.2
60/35/5*	0.6	5.3	5.3
Delaware Benchmark**	0.8	5.7	5.7

*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 reported that the Fund has not been rewarded for its equity management investments. The Investment Committee is disappointed in these returns, yet is not alarmed.

A Poll Vote was conducted on June 24, 2003 at the request of the Investment Committee. The Committee recommended that up to \$150 million in additional funds be invested in Oaktree International Convertibles funded from the liquidation of up to \$250 million from Mellon GTAA. The balance of \$100 million will be reinvested in Mellon TAA. Forty percent of the liquidation will be reinvested in Mellon TAA and sixty percent of the liquidation in Oaktree. This split is the US-to-International split of the GTAA benchmark. This liquidation and investment will take place as the manager can absorb the funds and also in consideration of the cash flow needs of the Fund.

MOTION was made by N. Shevock and seconded by L. Blunt-Bradley to ratify the poll vote conducted on June 24, 2003.

MOTION ADOPTED UNANIMOUSLY

5. PENSION ADVISORY COUNCIL

C. Lister said that were delighted to see the legislation pass granting a post retirement increase effective in the fall. The next Pension Advisory Council meeting will be held on November 18, 2003.

6. PENSION ADMINISTRATOR'S REPORT

Medical Report

Comprehensive monthly reports were distributed and discussed covering disability applications and pensions reviewed by the Medical Committee for the month of July 2003. There were 20 new disability cases were reviewed and approved for the month of July 2003.

Legislation

A list of recently passed legislation was distributed and discussed. (See attached.)

SB 143 and SB185 have not yet been signed.

The Press has not yet released any information on the PRI. Cost is \$42 M. Will need to increase funding over the five-year period.

Legislation Continued

HB 12 allows police in C/M police plan to purchase prior police service. The Pension Office has received calls regarding clarification of the buy-in definition. D. Craik provided an actuarial buy-in rate table along with a proposed a definition for approval (see attached.) A public hearing will need to be held in order to make this change a regulation.

A motion was made by R. Allen and seconded by N. Shevock to accept the buy-in rates along with the proposed definition as the interpretation of the law and set at a future time to become a regulation.

MOTION ADOPTED UNANIMOUSLY

Communications

The Pension Office received a recent appeal from a University of Delaware retiree on how the Pension Office calculated his final average salary in regards to the flexible benefits program that the University offers. D. Craik provided an explanation of how since 2001 that the Pension Office has been subtracting the payments that were received by these employees' from their "flex credit" accounts from their creditable compensation. After further review, it was determined that these are not payments to the employee, but basically their premiums that are paid for benefits such as health insurance thus these payments will no longer be subtracted from their creditable compensation. The person who appealed has had this error corrected and the Pension Office will be reviewing the calculations of other University of Delaware retirees who have retired since 2001 for correction. There are 174 files that need to be reviewed and corrected. The Pension Office will be working on these files beginning in September through December 2003.

The employer contribution rate for the first pay cycle in FY04 was incorrect in the State's payroll system, as the changes to the PRI rate were not reflected. The next pay cycle will be adjusted to capture the missed contributions and on the third cycle, the correct rates will be in place.

A copy of the DPERS newsletter was presented. The newsletter, scheduled to be distributed to the retirees with their September checks and deposit notices, contains an article regarding the upcoming Post Retirement Increase. L. Blunt-Bradley will check status of SB 185 that is awaiting the Governor's signature.

The latest PeopleSoft upgrade is going smoothly and is being completed more quickly than originally thought. The new hardware for the system is in place. Since the project is being completed ahead of schedule, the Pension Office is able to work on the wish list from the last upgrade.

A draft of the 32nd Comprehensive Annual Financial Report will be presented for review at the September Board meeting.

7. AUDIT COMMITTEE REPORT

Auditors will begin the annual audit on August 4, 2003.

8. PENDING ITEMS

No action taken.

9. DEPUTY ATTORNEY GENERAL REPORT

A discussion will be held at a future meeting regarding fiduciary responsibilities.

10. RESOLUTION PRESENTATION

A Resolution for Carolyn Williams, Deputy Pension Administrator, was presented on behalf of her pending retirement. Trustees congratulated Ms. Williams and thanked her for her years of dedicated service.

MOTION was made by J. King and seconded by N. Shevock to ratify the Resolution for Carolyn J. Williams.

MOTION ADOPTED UNANIMOUSLY

11. ADJOURNMENT

The next Pension Board meeting will be held on September 26, 2003 in the McArdle Building Delaware Conference Room in Dover, Delaware.

At 11:00 a.m. there being no further business, MOTION was made by N. Shevock and seconded by R. Allen to adjourn the meeting.

MOTION ADOPTED UNANIMOUSLY

Respectfully submitted,

David C. Craik
Pension Administrator

Ralph J. Adkins, Chair
Board of Pension Trustees