

STATE OF DELAWARE
STATE BOARD OF PENSION TRUSTEES
AND
OFFICE OF PENSIONS
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BOARD OF PENSION TRUSTEES
MEETING MINUTES OF NOVEMBER 19, 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 Office of Pensions in Dover.

Trustees Present

Philip S. Reese
Robert W. Allen
Jan King
Nancy J. Shevock
Helen Parson

Trustees Absent

Dana Jefferson
David W. Singleton

Others Present

Marsha Kramarck, DAG
David Craik, Pension Office
Kim Vincent, Pension Office
Alice Simon, Pension Office
Kathy Kunkle, Pension Office
James Testerman, Pension Advisory Committee
Charlotte Lister, Pension Advisory Committee

1. OPENING COMMENTS

The meeting of the Board of Pensions Trustees was called to order at 9:00 a.m.

P. Reese gave an update on the Best Practices review process under consideration. The primary reasons for conducting the review are to meet Board fiduciary duties, to respond to the operating environment created in the wake of Sarbanes-Oxley Act of 2002, to collect and improve the institutional knowledge of Board and Committee members, to be proactive to political concerns for Board operations, and to provide strategic direction to guide the Board for the next three to five years. P. Reese suggests the use of experts from the business community who have experience in operations analysis and investments to help develop a scoping document. That document could be reviewed by others before being used as the basis for a Request for Proposals to carry out the review. The Board will be actively involved in the development and review of the scoping document.

P. Reese will be hosting the annual Christmas luncheon to be held after the Board meeting on December 17, 2004. The members of the Medical Committee will be invited to attend.

2. APPROVAL OF THE MINUTES

The Trustees reviewed the minutes of the October 26, 2004 meeting. P. Reese suggested that under the Delegation of authority to the Investment, Medical or Audit committees in item number 4. Governance Issues, the Investment Committee section be eliminated, and in its place the following be substituted:

Investment Committee - J. King presented a draft of the proposed delegation of duties to the Investment Committee. After discussion, P. Reese asked M. Kramarck to review the draft and put it in final format for review by the Investment Committee at their next meeting. Final approval by the Board to be obtained at the November 2004 Board meeting.

MOTION made by J. King and seconded by H. Foster to approve the minutes of the Board of Pension Trustees' October 26, 2004, meeting as amended.

MOTION ADOPTED UNANIMOUSLY

3. GOVERNANCE ISSUES

D. Craik reported that all items are in progress and there are no current updates.

4. INVESTMENT COMMITTEE REPORT

J. King reviewed the modified Delegation of Powers to Investment Committee. The list includes clarifications of items in the prior draft. This list may be modified by the Board in the future to include any additional delegation of authority.

MOTION made by R. Allen and seconded by N. Shevock to delegate powers as listed on the Delegation of Powers to Investment Committee.

MOTION ADOPTED UNANIMOUSLY

INVESTMENT PERFORMANCE – MONTH ENDING OCTOBER 31, 2004

<u>Fund</u>	<u>Previous Month</u>	<u>Fiscal Year To Date</u>	<u>12-Month</u>
Total Fund	1.4%	2.9%	11.6%
S & P 500 Index	1.5%	(0.4)%	9.4%
60/35/5*	1.2%	1.4%	7.7%
Delaware Benchmark**	1.4%	2.0%	8.6%

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

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

Total assets in the fund at the end of September totaled \$5,640 million.

The fund posted a month of strong performance with October gaining a 1.4% return during the month. This return was equal to the Delaware Benchmark of 1.4% and was higher than the 60/35/5 benchmark of 1.2%.

The month of October was another positive one for the equity markets. The Russell 3000 stocks gained 1.5%, Large Growth stocks gained 1.6% and Large Value index returned a positive 1.7%. Small cap stocks posted the strongest returns in the equity market with the Russell 2000 returning a positive 2.0% mainly due to the growth sector. The international markets led the U.S. market with the unhedged EAFE returning a positive 3.4%. The bond market continues to ring out returns with the Lehman LT Government/Corp Index at 1.6% and the High Yield sector returned a positive 1.6% as spreads begin continue to narrow and higher coupons.

The fiscal year returns for the four months for the Fund will be reported at a positive 2.9%, compared to a 2.0% benchmark. Calendar year to date returns are 6.4% compared to 4.1% for the Delaware benchmark. With stronger equity markets, the Mellon TAA with current allocation of 90% toward equities is working in our favor. The month of November is a strong one to date with a Broad Market return of roughly 5% for the month.

The meeting of the Investment Committee this week included meetings with TRP Natural Resource managers, as well as the Mount Lucas Commodity portfolio managers. Both indicate that pressures on these

4. INVESTMENT COMMITTEE REPORT (continued)

materials in a recovery and expansion will continue. Several members of the audit committee sat in on the discussions. TRP continues to feel that our larger allocation to their portfolio will return higher than general equity returns over the next 2 to 3 years. Mount Lucas discussed changes Index to exclude thinner traded futures of Soybean Oil, Soybean Meal, Treasury Bonds and five year notes and to include Euro Bond and Japanese Government Bond futures. The index for our purposes will now be in 23 equal weighted markets.

The poll vote of this week needs to be affirmed by the Board. It was necessary to gain approval for this poll vote due to timing with the Thanksgiving Holiday to ensure trades be placed before traders disappeared or the market thinned as the holiday approached.

In June 2001, the Investment Committee with Board approval made an opportunistic allocation to T. Rowe Price High Yield bonds due to historic high spreads in this segment of the fixed income market. These spreads have now narrowed to a historic 6-year low. The Committee recommends full liquidation of these funds held with T. Rowe Price High Yield (approximately \$230 million) effective immediately. T. Rowe Price has done an excellent job in managing these funds in the high yield market and this termination does not reflect our view of their performance. Use of a transition manager is not anticipated.

Funds from the liquidated High Yield Portfolio need to be reinvested. The Investment Committee recommends \$90 million of the proceeds be invested in the Mellon TIPS Index Fund which are mainly inflation indexed long bonds. Total in this portfolio would be approximately \$250 million. The remainder (approximately \$140 million) is recommended to be added to the Mount Lucas Managed Index portfolio. After this addition, this portfolio would be approximately \$250 million.

Next meeting of the Investment Committee will be held on December 14th and will include a presentation by Mellon Capital Management of the TAA and GTAA portfolios.

A poll vote of Board members was conducted on November 16, 2004, to approve the liquidation of the T. Rowe Price High Yield fund. This fund has a current market value of approximately \$230 million.

MOTION made by R. Allen, seconded by N. Shevock to ratify the November 16, 2004, poll vote to liquidate the fund's investment in the T. Rowe Price High Yield fund.

MOTION ADOPTED UNANIMOUSLY

The Investment Committee recommends an additional investment of \$90 million in the Mellon TIPS fund. This fund invests in inflation-protected Treasury bonds. The TIPS fund currently has a market value of approximately \$163 million; this additional investment will bring the fund balance up to approximately \$250 million.

MOTION made by N. Shevock, seconded by H. Foster to commit \$90 million to the Mellon TIPS fund.

MOTION ADOPTED UNANIMOUSLY

4. INVESTMENT COMMITTEE REPORT (continued)

The Investment Committee recommends deploying the balance of the proceeds from the T. Rowe Price High Yield fund liquidation, approximately \$140 million, in an additional investment in the Mount Lucas Managed Index Fund. This will bring the Mount Lucas fund balance up to approximately \$250 million.

MOTION made by H. Foster, seconded by R. Allen to commit approximately \$140 million to the Mount Lucas Managed Index Fund.

MOTION ADOPTED UNANIMOUSLY

Taken together, these portfolio changes reduce the risk exposure of the fund as a whole.

5. PENSION ADVISORY COUNCIL

J. Testerman reported that the Pension Advisory Council had elected new officers. He will continue to serve as Chair, Larry Talley and Charlotte Lister continue to serve in their positions as First Vice Chair and Second Vice Chair, respectively.

Two new representatives to the Council are Joe Vrudny, representing DRSP; and Vincent DiSabatino representing the FOP. A primary focus for the coming legislative session will be to advocate for improving long-term funding for pensioner health benefits.

6. PENSION ADMINISTRATOR'S REPORT

Medical Report

As of November 1, 2004, there were 32 new cases pending receipt of original medical information. Only one was over 90 days old. There were no changes to the trends usually experienced.

The Medical Committee will attend the December Board meeting.

D. Craik will be attending a meeting with representatives of the Governor's office to discuss the benefits of the current disability pension provisions vs. the new, proposed disability insurance coverage.

2005 Appeal Hearing Meeting Dates

D. Craik reported that all Board members have confirmed meeting dates for 2005, except for the State Personnel Director. He will confirm dates with the Director's secretary.

6. PENSION ADMINISTRATOR'S REPORT (continued)

Volunteer Firemen's Plan

A poll vote of board members was conducted on November 10, 2004 to approve the employer contribution rate for the Volunteer Firemen's plan. The Board agreed in October to adopt FY06 employer contribution rates pending a review by the actuary of the Volunteer Firemen's Plan calculations. The new rate proposed was \$277.52 per member, a 93% increase. A review by the actuary concluded that the proposed rate was correct, and reflected the Plan's actual retirement age experience. After meeting with representatives of the Delaware Volunteer Fireman's Association, a poll vote was conducted to revise the rate to \$159.95 per member, an increase of 11%. Future annual increases in the employer contribution will be necessary to bring the employer cost in line with the annual required contribution. In the meantime, the Plan has sufficient resources to meet its cash flow needs.

MOTION made by R. Allen, seconded by N. Shevock to ratify the November 10, 2004 poll vote to revise the CY05 employer contribution rate for the Volunteer Firemen's Plan to \$159.95 per member.

MOTION ADOPTED UNANIMOUSLY

Communications

The annual Pre-retirement workshop was held on November 18, 2004, in conjunction with the State Personnel Office and the Division of Aging. The workshop covers pension, social security, and health issues. In the past, the conference has attracted about 75 participants; this year's session drew almost 200 participants. The Pension Office supplied 22 staff people to be on hand to answer questions.

7. PENDING ITEMS

D. Craik reported that the four vendors being considered for the Disability Project will be interviewed on November 23, 2004 (item #1 on the list of pending items). From that group, two vendors will be chosen in December for final consideration. The project is on track to meet the deadlines for reporting to the Legislature by the end of the year.

8. DEPUTY ATTORNEY GENERAL REPORT

No report

9. EXECUTIVE SESSION

MOTION made by R. Allen and seconded by N. Shevock to convene an Executive Session for the purpose of discussion of three appeal cases.

MOTION ADOPTED UNANIMOUSLY

MOTION made by N. Shevock and seconded by R. Allen to exit Executive Session.

MOTION ADOPTED UNANIMOUSLY

Following a discussion in Executive Session, the following motions were made:

MOTION made by R. Allen, seconded by J. King to accept the decision of the hearing officer in the case of Thomas Dunham to determine creditable compensation.

MOTION ADOPTED UNANIMOUSLY

MOTION made by R. Allen, seconded by J. King to accept the decision of the hearing officer in the case of Shirley Dunham to determine creditable compensation.

MOTION ADOPTED UNANIMOUSLY

MOTION made by R. Allen, seconded by J. King to accept the decision of the hearing officer to grant the application of Daniel Deckard for two years of military credit.

MOTION ADOPTED UNANIMOUSLY

11. ADJOURNMENT

The next Pension Board meeting will be held on December 17, 2004 at 9:00, in the Delaware Conference Room of the Office of Pensions.

At 10:40 a.m., there being no further business,
MOTION was made by H. Foster 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

Delegation of Powers to Investment Committee

The Board delegates the following powers to the Investment Committee superseding all previous delegations, subject always to future modification by the Board. The Investment Committee may undertake such action without prior or separate approval by the Board:

1. Approve changes to Investment Manager Objectives, including management objectives identified in Schedule A and Fees identified in Schedule D. The Chair of the Investment Committee is hereby authorized to execute documents related to Schedules A & D.
2. Make decisions on all issues, transactions, or documents pertaining to limited partnerships, which have been approved for investment by the Board. The Chair of the Investment is hereby authorized to sign documents related to limited partnerships or private equity transactions.
3. Make decisions to buy or sell existing limited partnership interests in funds where DPERS is an existing limited partner, up to \$10 million. The Chair of the Investment Committee is hereby authorized to execute documents related to authorized increases or decreases in existing limited partnerships or private equity transactions.
4. Make decisions regarding the manner of establishing a new portfolio/liquidation of a portfolio/portfolio restructuring, including the hiring and instructing of a “transition” manager, in the event of a Board approved manager termination or manager hire. In the event a transition manager is used, the Chair of the Investment Committee is hereby authorized to execute documents related to such hiring or restructuring.
5. Manage all proxy voting according to a policy formulated by the Investment Committee and approved by the Board.
6. Liquidate assets as needed to meet fund obligations, subject to Board notification at its next Board meeting. The authority to liquidate an entire portfolio or to terminate a manager is reserved to the Board upon recommendation by the Investment Committee.
7. Transfer any security where its worth is in question to a manager with the direction to make a final valuation of the security and to act on the valuation either by sale or write-off.

Poll Vote
November 16, 2004

It is necessary to gain approval for the following by poll vote due to timing with the Thanksgiving Holiday next week.

In June 2001, the Investment Committee with Board approval made an opportunistic allocation to T. Rowe Price High Yield bonds due to historic high spreads in this segment of the fixed income market. These spreads have now narrowed to a historic 6-year low. The Committee recommends full liquidation of these funds held with T. Rowe Price High Yield (approximately \$230 million) effective immediately. Re-investment of these funds will be discussed at the November Board meeting.

T. Rowe Price has done an excellent job in managing these funds in the high yield market and this termination does not reflect our view of their performance. Use of a transition manager is not anticipated.

P. Reese	Yes
J. King	Yes
N. Shevock	Yes
R. Allen	Yes
H. Foster	Yes
D. Singleton	Yes
D. Jefferson	Yes

Poll Vote
November 10, 2004

At the October Board meeting the employer rate for the Volunteer Firemen's plan was adopted pending further review by the actuary. The review has been finalized and the rate of \$277.52 per member that was adopted is the final rate. This rate is a 93% increase from the previous year.

D. Craik with the Delaware Volunteer Firemen Association Pension Advisory Committee on November 9th to discuss the 2005 employer costs and the reasons for the increases. The committee understands and agrees with the increases, but has asked that a proposal be considered to phase in this increase over a period of time. The proposal is to take what the rate would have been if there were not any actuarial assumption changes and then increase that rate each year by 10% till the rate equals the annual required contribution. Given all assumptions being equal this would be about a 8 year period. This will bring the rate for the next year at \$159.95 per member which is a 11.15% increase from last year. All costs associated with this plan are the responsibility of the individual fire companies, therefore no impact on the State.

Ask approval of the rate of \$159.95 per member be used for the next year, with the understanding that that rate will increase by 10% per year till the rate equals the annual required contribution

P. Reese	Yes
J. King	Yes
N. Shevock	Yes
R. Allen	Yes
H. Foster	Yes
D. Singleton	Yes
D. Jefferson	Yes